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EUROPE'S BUSINESS NEWSPAPER

# FINANCIAL TIMES

NUCLEAR POWER

Safety fears check an industry's growth

Page 31

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Monday September 24 1990

World News

Business Summary

## Agreement on repatriation of Vietnam refugees

Britain, Vietnam and Hong Kong have reached an agreement which would allow the repatriation of Vietnamese refugees camped in the colony who have not volunteered to return home. The countries have agreed to repatriate boat people who do not volunteer to return but are not opposed to going back. Page 24

## De Klerk in US

President F.W. de Klerk arrived in the US, the first visit by a South African head of state for 43 years. The trip represents a big step forward in the country's gradual political rehabilitation. Page 8

## Israelis vent anger

Palestinians travelling to work were attacked by angry Israelis, and right-wing politicians called for retribution, on the first working day since the stoning and burning to death of an Israeli soldier in the Gaza Strip. Page 8

## Japan - N Korea ties

Japan's ruling Liberal Democratic Party was due today to send a mission to North Korea, a move which could lead to a thaw in their ice-cold relations. Page 8

## Greek strike move

Greece's Conservative government looks determined to stop a two-week wave of strikes, which has caused random six-hour power cuts and left tonnes of uncollected rubbish in city streets. Page 8

## Bhutto faces trial

A special court in Lahore ordered Pakistan's ousted Prime Minister Benazir Bhutto to stand trial on corruption charges. Conviction could mean her being barred from political activity for up to seven years. Page 8

## Nuclear moratorium

Swiss ecologists and anti-nuclear groups succeeded in winning over 54 per cent of the vote for a 10-year moratorium on building more nuclear power plants, despite opposition from the Government and the power industry. Page 4

## Libarians hold fire

Liberian rebel factions and former government soldiers respected a ceasefire yesterday, 24 hours after the fragile truce was declared, military and other sources said. "The ceasefire is holding," a senior officer with the ECOMOG West African peacekeeping force said. Page 4

## Singh challenged

Indian Prime Minister Vishwanath Pratap Singh faces a challenge this week from the Lal Kishan Advani, leader of the Bharatiya Janata Party which is vital to Mr Singh's government coalition. Page 4

## French legal move

French legal authorities have started proceedings against a number of farmers suspected of attacking lorries carrying live imported sheep and cattle. Page 6

## Hope for peace talks

Leaders of three Cambodian guerrilla groups accepted fellow rebel leader Prince Norodom Sihanouk's offer of more seats on a proposed national council. The compromise means peace talks to end 11 years' war could soon resume. Page 6

## ETA arrest

French police arrested a suspected top guerrilla leader of the Basque separatist movement ETA in an operation planned by French and Spanish security forces. Page 6

## Fires sweep Riviera

Some 2,500 people were evacuated from their French Riviera homes as fires and troops struggled against a fire which has already destroyed some 28,400 acres of woodland. Page 6

## Congress attacks Fed decision on J. P. Morgan

The US Federal Reserve's far-reaching decision to allow J.P. Morgan, New York commercial bank, to underwrite corporate equities has been attacked by congressional leaders as an attempt to circumvent and pre-empt the legislature's review of possible banking reforms. Page 25

It comes at a time of increasing alarm in Washington about the financial problems of many banks and about the severe strain on the Federal fund which insures bank deposits as both the Bush Administration and Congress consider banking reforms. Page 25

EUROPEAN monetary system: The Spanish peseta maintained its position as the strongest currency within the EMS last week as Spain's high interest rates continued to attract investor interest. But the Italian lira was less stable, dipping to the bottom of the grid before recovering as short-term Italian rates firmed. Page 25

September 21, 1990

EMS

GNP

0.0 1% 2% 3%

Guided D-Mark

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## Saddam warns of attack if Iraqi economy is strangled

By Our Foreign Staff

PRESIDENT Saddam Hussein of Iraq yesterday warned that the economic strangulation of his country would force him to strike at Middle East oilfields and Israel.

"Oil, the region and Israel will be the victims of the resulting deluge," he declared. "It is those who create this deluge who will be strangled."

He also insisted Iraq's annexation of Kuwait was "eternal and irreversible under any circumstances."

His statement, broadcast by Baghdad Radio after a meeting

of the Revolution Command Council and the ruling Baath party leadership, was his most uncompromising since Iraq's invasion of Kuwait on August 2.

It came amidst signs of increased divisions in the Arab ranks, following Saudi Arabia's decision over the weekend to expel Iraqi, Jordanian and Yemeni diplomats from the kingdom for allegedly trying to pinpoint US and other military targets for guerrilla attack.

On Friday, Saudi Arabia cut the flow of 33,000 barrels per

day (b/d) of crude to Jordan's Zarqa refinery, officially because of payments arrears. But in Jordan the move was seen as a means of pressuring King Hussein for his ambiguous posture towards the Arab states aligned against Iraq and for hosting a conference of pro-Iraqi Arab radicals the previous week.

The Iraqi leader's belligerent statement also precedes a week in which intense efforts will be made to find a diplomatic formula to end the Gulf crisis as the United Nations General

Assembly convenes in New York.

Mr Javier Pérez de Cuellar, UN Secretary-General, will meet many of the protagonists including the Iraqi foreign minister in New York this week. US President George Bush is also expected to continue to develop his plans for dealing with Mr Saddam in meetings with President Turgut Ozal of Turkey and the Emir of Kuwait, who is running a government-in-exile from Saudi Arabia.

Israeli officials last night

said President Hussein's threats should not be taken lightly. They reiterated the Government's publicly-stated position that any Iraqi attack would meet with a devastating response by Israel. Under strong pressure from Washington, Israel has so far sought to keep a low profile in the crisis to avoid allowing Mr Saddam to turn the Iraqi invasion of Kuwait into an Arab-Israeli issue.

The Iraqi leader's statement appeared directed in part at the United Nations Security

Council which is finalising a fresh resolution to tighten the land and sea blockade of Iraq by introducing an air embargo. He claimed the US and its allies were resorting to the "law of the jungle" by pushing for tighter sanctions.

Western intelligence experts claim that only limited supplies are still reaching Baghdad by air - being supplied either via Libya or Yemen and using either Jordanian or Syrian airspace. The embargo will continue on Page 24

The Gulf Crisis, Page 3

## G7 forecasts continued economic growth in 1991

By Peter Norman, Stephen Fidler and Peter Riddell in Washington

THE WORLD'S leading industrial countries paped over their differences about interest rate policy yesterday and predicted continued growth for their economies next year.

After a weekend meeting in Washington, the group of seven the US, Japan, Germany, France, Britain, Italy and Canada - said monetary policies directed to price stability and sound fiscal practices constituted the correct response to the Gulf crisis.

The rise in oil prices that followed Iraq's invasion of Kuwait posed risks of inflation and of lower economic growth, they said. However, they judged that the way forward was to adopt policies that would prevent higher oil prices affecting the underlying inflation rate. This non-accommodating approach would reduce the risks to growth.

The seven also backed the unification of Germany and the economic reform process in eastern and central Europe and threw their weight behind efforts to assist the so-called front-line states and other developing nations overcome economic problems caused by the Gulf crisis.

In their statement, they expressed less concern about the state of financial markets. While noting that stock markets had fallen substantially since the Gulf crisis began, the G7 expressed general satisfaction with exchange rate trends. "Exchange rates were now broadly in line with continued adjustment of external imbalances," they said.

Foreign exchange markets had been orderly in the face of fresh uncertainties while the yen, which was a cause of concern because of its weakness at

## FINANCE MINISTERS BACK FRESH WORLD BANK LOANS FOR PEKING

FINANCE ministers from industrial countries gave the green light at the weekend for increased World Bank lending to China, which has been severely restricted since the massacre in Peking in June last year, writes Stephen Fidler in Washington.

The move follows a warning in relations with the west after Chinese agreement not to block resolutions directed against Iraq in the United Nations Security Council.

Lending to China by the World Bank and its soft-loan affiliate, the International Development Association, has been limited to loans for humanitarian purposes.

Japan has been pressing for relaxation of these conditions but was unable to secure agreement at the Group of Seven economic summit at Houston in June.

the time of their last meeting in May, had risen in value.

The weekend's meeting was described by Mr Theo Waigel, the West German Finance Minister, as having taken place in a good atmosphere.

However, there were clear differences of opinion afterwards about the meaning of its main policy recommendations while Mr Ryutaro Hashimoto, the Japanese Finance Minister, let slip his worries about financial fragility in the currency and equity markets.

Mr Karl Otto Pöhl, the Bundesbank president, said it was significant that the ministers and central bank governors in the meeting saw tight monetary policies as the answer to the world's problems. He said the agreed statement showed that all participants were determined to maintain strict monetary policies.

A European participant said after the meeting that Mr Nicholas Brady, the US Treasury Secretary, and Mr Pierre Berégovoy, the French Finance Minister, had tried but failed to

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make the communiqué reflect the possibility of interest rate reductions if growth came under threat.

Nevertheless, Mr Brady was pleased with the outcome of the meeting. He saw it as increasing international pressure for an early budget agreement to reduce the US federal deficit while providing leeway for a subsequent reduction in

interest rates by the Federal Reserve. He said the Bush Administration did not intend to set aside a budget deficit reduction programme "for any reason."

Mr Brady stressed the twin risks of inflation and lower economic growth and said the G7 statement was intended to provide a balance.

Interest rates and issues of financial fragility were due to be discussed yesterday by G7 central bank governors at a private lunch. But after the G7 ministers' meeting Mr Hashimoto betrayed his own concern about this year's sharp fall in the Tokyo equity market and that the dollar might fall precipitately.

"We would accept a further strengthening of the Japanese yen against the US dollar or European currencies to the extent that such an appreciation was orderly and steady. We must by all means avoid any nosedive of the US dollar," he said. He said the meeting also stressed "the importance of a stable equity market."

Mr Hashimoto is fighting an earlier decision to sell the East German luxury hotels group, Interhotel, to the West German Steigenberger group, and also the takeover of part of the retail system by the West German Tengelmann group.

He also seems reluctant to allow Lufthansa to take a controlling stake in the East German airline Interflug. "It must be possible in a country of 60m people to have two airlines."

## East German industry gaining liquidity and West German trust

By David Goodhart in Bonn

EAST GERMAN companies are beginning to pay their bills and West German banks are slowly starting to lend to them, according to guarantees from the Treuhand, the body charged with privatising East German industry, according to Mr Detlev Rohwedder, its chief executive.

However, since monetary union on July 1, West German and foreign capital had not flowed into East Germany in the quantities expected, Mr Rohwedder said.

"I will be disappointed if there is not a great deal more interest, especially from foreign investors, after October 3 (the day of German unity). In the past few months investors have been put off by the complex legal apparatus of an independent state," he said.

Mr Rohwedder said the liquidity position of most East German companies would look much better in the fourth quarter and he welcomed the fact that the DM30bn (\$19.1bn) in new, Treuhand-backed, liquidity loans paid out in the third

quarter would not have to be paid back until the end of March, instead of as planned. Only about half of the loans are expected to be repaid at all.

The Treuhand has DM25bn until the end of next year to hand out to companies for investment, instead of the DM17bn originally planned. However, one insider said the problem was not insufficient funds, but finding viable projects to which to lend.

Mr Rohwedder said the Treuhand itself - established in February by the East German Government led by Mr Hans Modrow - had sometimes been more of a hindrance than a help to potential investors. Initially the organisation had no resources, no workable structure and lots of obstructive Communist officials.

"Wrong personnel decisions were made in the early stages which led to the wrong decisions being made about privatisations," Mr Rohwedder said. The Treuhand is trying to

revoke some of these decisions but is facing legal challenges from injured parties.

Mr Rohwedder was appointed chairman of the Treuhand supervisory board in June and chief executive last month after policy differences with the previous incumbent, Mr Rainer Maria Gohlke.

He stressed that price was not the only criterion in privatisation decisions. "We are committed to an open, competitive, market system, and do not want to see the establishment of giant German monopolies," he said.

Mr Rohwedder is fighting an earlier decision to sell the East German luxury hotels group, Interhotel, to the West German Steigenberger group, and also the takeover of part of the retail system by the West German Tengelmann group.

He also seems reluctant to allow Lufthansa to take a controlling stake in the East German airline Interflug. "It must be possible in a country of 60m people to have two airlines."

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Michel Camdessus, the managing director of the International Monetary Fund, has sought to make the IMF better understood and assert its central place in the international financial system. His style is naturally open and his approach acute and precise. Page 46

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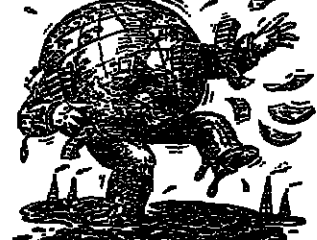
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THURSDAY:  
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FRIDAY:  
Northern Ireland: Rising confidence: uncertain outlook. FT Review of Business Books: The pick of the latest titles.



WORLD ECONOMY: Even without Saddam Hussein and rising oil prices, signs of tension in the global economy were starting to emerge. (See separate section today).

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## IMF/WORLD BANK MEETING

## Industrial nations agree Gulf aid strategy

By Peter Norman and Stephen Fidler in Washington

THE world's leading industrial countries have agreed to set in train their aid strategy for countries hard hit by the Gulf crisis.

At their weekend meeting in Washington, the finance ministers of the Group of Seven countries agreed a two-tier approach to resolving the problems of both the "front line" states affected by Iraq's invasion of Kuwait and developing nations hit by the rising price of oil and loss of workers' remittances and trade as a result of the embargo against Iraq.

The G7 - the US, Japan, Germany, France, Britain, Italy and Canada - together with other donor-countries such as Saudi Arabia, the United Arab Emirates and South Korea, will work out under US leadership how to disburse the short-term emergency assistance to the front line states of Jordan, Egypt and Turkey.

The IMF and World Bank will concentrate on providing more medium-term assistance to other affected nations in the period to the end of 1991.

Senior officials from the donor countries will meet on

JAPAN will offer \$300m (£160m) in emergency soft loans to Egypt, \$200m to Turkey, and \$100m to Jordan to help ease the economic squeeze on them caused by the Gulf crisis, writes Ian Rodger in Tokyo.

Tokyo said on September 14 it would provide \$800m in emergency loans to the three "front-line" nations to help them pay for vital commodity imports. Officials said Premier Toshiki Kaifu would formally announce allocation of the \$800m in commodity loans when he visits five Middle East countries next month.

The loans, to be issued by the government's Overseas Economic Co-operation Fund (OECF), carry an annual 1 per cent interest rate over 30 years. Japan has pledged another \$1.6bn in grants and loans to Middle East nations hit by the Gulf crisis.

Wednesday to assess the financing needs of the front-line states with a view to an early decision on giving support. According to Giorst Köhler,

the state secretary in the West German finance ministry, they will have to overcome serious differences between the EC's estimate that the states need \$9bn (£4.70bn) and the US wish to provide \$15bn.

Mr Michel Camdessus, the IMF managing director, told the G7 meeting that other nations would require \$5bn special drawing rights (\$7bn) of IMF and World Bank support to compensate for the economic costs of the Gulf conflict.

The G7 meeting called on the IMF to examine how to make its special Compensatory and Contingency Financing Facility (CCFF) more responsive to the needs of the affected nations.

Mr Ryutaro Hashimoto, the Japanese finance minister, said ministers had accepted a Japanese proposal temporarily to expand access to the Fund for such countries and to increase its flexibility.

The World Bank has also said it will accelerate, where possible, loans to eastern Europe because of the double oil blow to the region's economies. They will be hit by the

SOUTH Korea will commit more than \$200m (£106m) to aid US efforts in the Gulf crisis, the national news agency Yonhap said yesterday. Reuter reports from Seoul.

Yonhap said Mr Yoo Chong-ha, vice-foreign minister, would announce the aid package today. South Korea had decided to set aside \$200m-\$230m for aid to the US-led international force in the Gulf and to Middle East states hit by the UN trade embargo on Iraq.

President Roh Tae-woo said on Saturday the US had asked for \$350m. Seoul has said it will help US efforts in the Gulf sparked by Iraq's invasion of Kuwait, but cites an economic downturn and recent floods as limiting its means.

Seoul newspapers say South Korea plans to emphasize Soviet combat elements in its aid package.

breakdown of Comecon - and the switch at the end of the year to paying the Soviet Union for its oil at market prices in hard currency - and

the price rise prompted by the Gulf crisis.

Mr Eugenio Lari, director of the bank's Europe, Middle East and North Africa region, said new economic reform loans would be considered - to aid restructurings, for example, in the energy sectors of the economy. There will also be scope for loans in support of a regional initiative to aid, for example, the environment.

He said Bank estimates show that Bulgaria, expected to join the bank this week, will be the worst hit in the region. Based on an assumption that oil prices stay at just below \$30 a barrel, nearly 15 per cent would be wiped from gross domestic product. Hungary will suffer least, although GDP will shrink by more than 1 per cent.

The 22-country Interim Committee of the Fund is expected to discuss today a proposal from Mr Camdessus. His idea is that oil-producing countries should provide resources to subsidise IMF credit to badly-hit oil importing countries not poor enough to benefit otherwise from concessional IMF loans.

## Romania joins IFC to promote enterprise

By Peter Norman

ROMANIA yesterday joined the International Finance Corporation, the World Bank's affiliate that promotes the private sector in developing countries.

Mr Theodor Stolojan, the Finance Minister, said that Romania had joined the IFC as part of its plan to privatise virtually all the country's state-owned industry.

He said the government would give 30 per cent of state businesses to the people. The other 70 per cent would be sold as shares to Romanian or foreign investors.

"Joining the IFC is a big step in the economic programme for transition to a market economy," Mr Stolojan said. He added it was a very good signal to foreign countries as well as the Romanian people that the government was determined to adopt the market economy.

Romania has been a member of the International Monetary Fund and World Bank since 1972. It could not join the IFC before last December's revolution because it had no private sector, Mr Stolojan said.

Romania's decision to join the IFC comes at a time when the country is attempting to introduce economic reforms.

But these efforts are hindered by the Gulf crisis, the legacy of the highly centralised economic system bequeathed by the late President Ceausescu, and an infrastructure starved of capital investments.

Mr Stolojan said higher oil prices caused by the Gulf crisis would cost Romania \$600m in the last quarter of 1991. Romania was owed \$1.7m by Iraq and had been planning to take oil in payment of this debt until international sanctions on Baghdad.

He indicated that Romania wanted a stabilisation fund to back its reform efforts, especially its plan to make its currency, the leu, convertible. He recalled that Poland had received a \$1bn stabilisation fund to support the zloty from the international community, and said Romania would want something similar.

## Brady takes heart from G7 pressure for US budget pact

By Peter Riddell, US Editor, in Washington

MR Nicholas Brady, US Treasury Secretary, has welcomed the Group of Seven's weekend statement as increasing international pressure for an early budget pact to reduce the federal deficit and as providing leeway for a subsequent cut in short-term interest rates.

The US had resisted some European calls for an unqualified primary commitment to fighting inflation and maintaining high interest rates. Instead, as US Treasury officials had sought, the statement contains a more ambiguous reference to "stability-oriented monetary policies and sound fiscal policies".

After the G7 meeting, Mr Brady stressed the twin risks of inflation and lower economic growth and said the G7 statement was intended to provide a balance, navigating between the two risks.

The G7 ministers were not, he said, "emphasising the inflation risk more than others, including the risk of lower economic growth." The statement did not change anything he had previously said about the Federal Reserve - which has been that it should consider cutting short-term interest rates, especially after a budget deal was completed.

He talked of sustaining growth in countries without runaway inflation, an apparent reference to the US, and welcomed the call by other G7 ministers "to bring the budget deficit to a prompt and successful conclusion".

He was still "an optimist, but a tired optimist" after talks launched in May when the finance ministers were last in Washington.

The statement's references to the budget deficit have special point, since there is now a week to go before the across-the-board spending cuts

of up to \$105bn (£56bn) will be imposed under the Gramm-Rudman deficit reduction law, in the absence of an agreement. A short-term rise in the federal debt limit will also expire, preventing any further borrowing.

White House officials and Congressional leaders are still talking about the means to achieve the agreed aim of a \$50bn cut in the deficit in the 1991 fiscal year starting on October 1 as the first stage of a \$500m, five-year reduction.

Hopes raised 10 days ago of an early agreement have faded and both sides are now preparing for what happens with a breakdown.

The main options are: ● Some form of last-minute deal will be agreed, allowing Congress this week to pass some stop-gap legislation before the deficit package is agreed.

● That could involve some version of the two-stage plan offered by Senator Robert Dole, the Republican minority leader, whereby the proposed cut in capital gains tax and some other controversial issues are voted on separately from the main deficit package. However, that idea has been resisted by some in the White House and by House Republicans.

● Congress seeks to postpone both decisions and across-the-board cuts until after the mid-term elections on November 6, though this is opposed by the White House.

● Across-the-board spending cuts take effect, resulting in immediate big lay-offs of federal employees, and cuts in a wide range of services, from air traffic control to health care and food inspection.

The Administration hopes that the public outcry would both produce an early budget agreement and shift the blame onto Congressional Democrats.

Mr Alan Greenspan, the Fed chairman, has made clear that monetary policy will not be eased until there is "credible, multi-year" budget package.

## Bolivia aims to erase bank debt

BOLIVIA is aiming to erase its remaining commercial bank debt, perhaps by the end of the year, Mr Enrique Garcia Rodriguez, Minister of Planning and Co-ordination, said yesterday. Stephen Fidler reports from Washington.

Mr Garcia, who heads the economic team, said Bolivia is expecting to buy back its \$200m (£106m) remaining debt, either for cash at 11 cents on the dollar or for investment bonds, carrying the right to invest in the country, at 16 cents.

The funds are being provided by the Netherlands, Switzerland, Sweden and the US, combined with a \$10m grant from the World Bank's soft loan affiliate.

Bolivia has already bought back about \$80m of its bank debt at a price of 11 cents on the dollar. Mr Garcia said the country would be one of the first to benefit from President Bush's Enterprise for the Americas initiative, including a proposal for forgiveness of Latin American debt to the US.

## Chile wins agreement on debt rescheduling

By Stephen Fidler

CHILE has secured rapid agreement with leading international banks over what is expected to be the country's last debt rescheduling accord. It should pave the way for the issue of about \$320m (£170m) of bonds to cover the country's new cash needs for the next three years.

According to Chilean officials, Santiago will also sign early next month an agreement with Mexico to eliminate tariffs between the two countries. The Government is also said to be close to concluding a negotiating framework with the US to pave the way towards a free-trade agreement. Although the US has negotiated a similar arrangement with Mexico, a framework agreement with Chile would be the first to follow the launch of President George Bush's Enterprise for the Americas initiative.

Mr Alejandro Foxley, Chile's Minister of Finance, said the agreement with its 10 main banks, led by Manufacturers

LEADING industrial countries have called on Brazil to resolve its arrears problems with its foreign creditors. Stephen Fidler reports. Brazil is \$10bn (£5.4bn) behind in interest payments to external creditors, most of it owed to commercial banks.

The G7 weekend communiqué said ministers "expect Brazil to resolve its arrears problems with external creditors" under a \$2bn standby loan programme with the IMF. It suggests IMF board approval of the loan for Brazil will depend on the country's

Hanover, would reschedule \$1.8bn of maturities falling due over the next four years. The first principal repayment on that rescheduled debt would be in 1995, helping to iron out a hump in Chile's debt maturities in 1991 and 1992.

The rescheduling will carry the same rates as on the current debt - interest margins of 1/2 a percentage point and 1/4 per

cent. The banks also declared a "strong interest in principle" to subscribe to a significant portion of the \$320m in new bonds.

The banks' expression of interest, said Mr Foxley, was voluntary, and a number had already agreed in principle to make a commitment of new funds. The bonds are expected to have a five-year life, with a

two-year grace period before principal repayments have to be made. They will carry an interest margin of 1.5 percentage points over money market rates.

Mr Foxley described the agreement as important. "It shows that there is a route that can be travelled back to the market," he said.

On trade, Mr Foxley said he was confused about the signals being sent from the US. The Bush Administration continues its free-trade rhetoric, but non-tariff barriers continue to exclude significant amounts of Chilean goods from the US market.

Chile wanted to move ahead with bilateral trade agreements, he added, because the Government is "a bit sceptical about what will end up happening on the Uruguay Round" of multilateral trade talks. He said he shared US concerns about the European Community's Common Agricultural Policy, which he described as a "very serious problem."

## Prague and IFC discuss privatisation mutual fund

By Stephen Fidler

CZECHOSLOVAKIA is talking with the International Finance Corporation, the World Bank's private sector development arm, about establishing a mutual fund to invest in privatised companies.

The aim of the fund would be to "help with the mechanics of the privatisation process" and encourage the develop-

ment of an institutional investor base, said Mr Vaclav Klaus, the country's finance minister, after signing the agreement that allowed Czechoslovakia to become the 138th member of the IFC.

The Government is planning a voucher system to privatise its large state-owned companies.

## Developing nations split over move for oil fund

By Stephen Fidler

DEVELOPING countries of the Group of 24 have failed to call for a special International Monetary Fund oil facility after a serious split emerged between oil exporting and importing nations.

A proposal by India and Pakistan to establish such a facility, by implication funded by those benefiting from an oil windfall, was successfully killed by the oil producers.

Mexico, Venezuela and Nigeria are among the prominent members of the committee, of which Iran is the president.

In a contentious debate, the oil producers' view was that current IMF instruments should be used flexibly to provide necessary aid. There was no guarantee that the oil price rises following Iraq's invasion of Kuwait would be anything other than

temporary. Gulf oil producers also held that the importers in the Gulf provided their own pressure for countries in the region.

The debate illustrates a division of economic interest among the developing countries over higher oil prices, although G-24 ministers noted "with deep concern the seriously adverse impact on many developing countries of the recent Middle East crisis."

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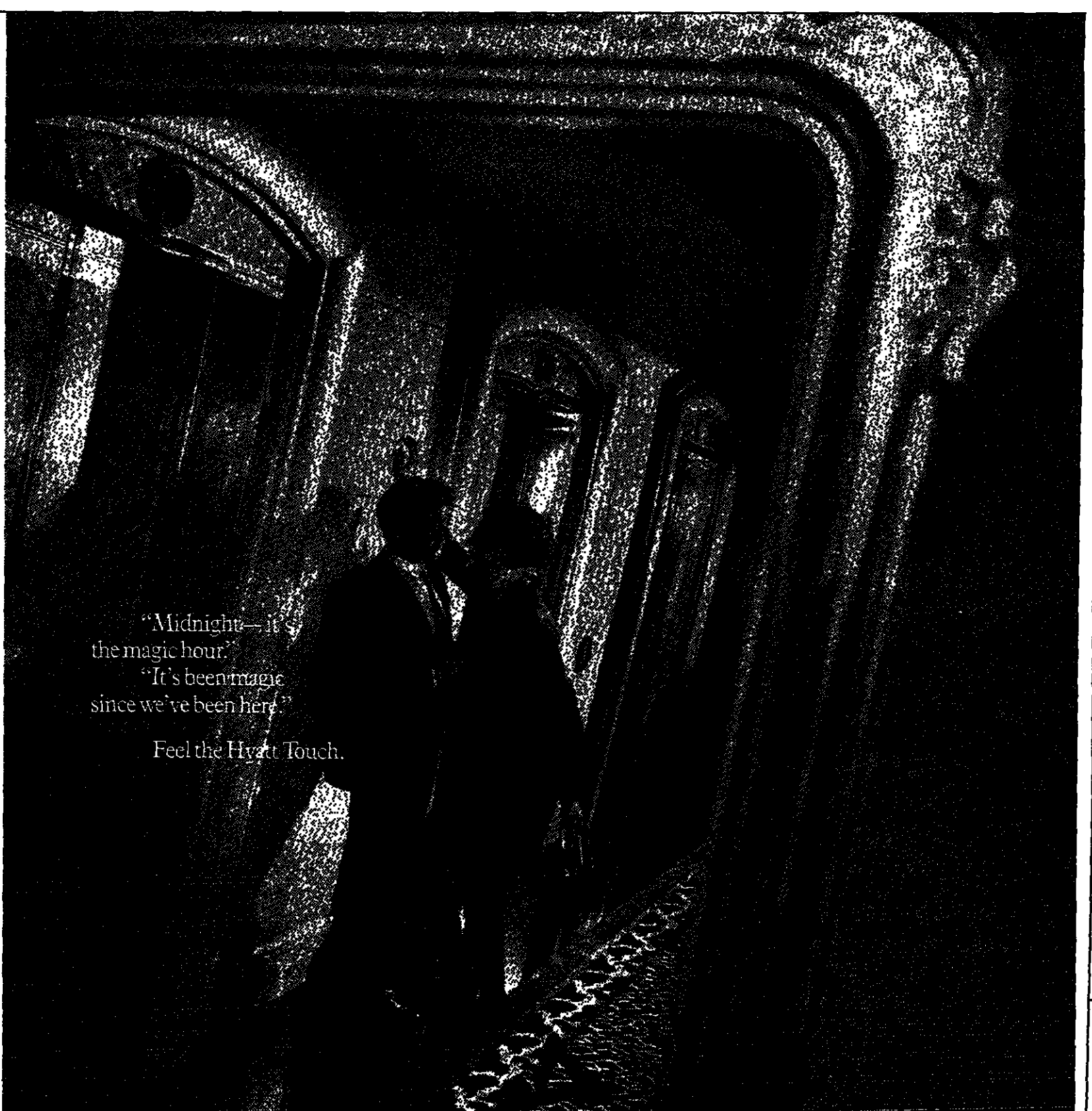
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## CRISIS IN THE GULF

## Bush scales down arms deal with Saudi Arabia

By Lionel Barber in Washington

THE Bush administration has revised plans to sell a \$2.1bn (1.1bn) arms package to Saudi Arabia and will present a scaled-back version to Congress this week, Mr James Baker, US Secretary of State, said yesterday.

The retreat follows heavy pressure from pro-Israeli members of Congress who objected to the size and quality of the arms transfer, which includes jet fighters, tanks, missiles and other sophisticated modern weaponry.

The administration's new plan is to split the arms package into two phases, with this week's version covering Saudi Arabia's immediate needs to defend itself against Iraq. The second longer-term package could be sent to Congress in late January or early February, Mr Baker said.

Although the revised plan may disappoint Saudi Arabia, the administration has indicated it cannot risk a bruising battle with Congress which could jeopardise other objectives such as the planned write-off of \$7bn of military debt owed by Egypt and, more important, support for possible military action.

Despite some sniping, President George Bush still enjoys overwhelming backing among the American public and in Congress for his Gulf strategy,

which combines economic and diplomatic pressure against Iraq with a continuing military build-up on the Arabian peninsula.

The administration is keen to keep the military option against Iraq "credible". Reports from Saudi Arabia yesterday suggested that the United States has drawn up contingency plans to mount a ground assault against Iraq from as many as four directions.

The attack would require US troops to cross the Jordanian desert and Turkish mountains to get to the Iraqi frontier, the Washington Post said. This could pose problems of access, particularly with King Hussein of Jordan, who gave a half-hour weekend TV address to Americans urging withdrawal of US forces.

But US military commanders reportedly want to draw some of Iraq's 140,000 elite Republican Guard away from Kuwait in the event of a US-led campaign to liberate Kuwait, if United Nations sanctions against Baghdad fail to work.

The military reports came one week after General Michael Dugan, the top-ranking US Air Force officer, was fired for revealing detailed plans for air strikes against Baghdad aimed at pulverising Iraq into withdrawing from Kuwait.

Together, they suggest the US military wants to keep Mr Saddam guessing while preparing the American public for possible war.

Mr Baker preferred to stress that there was still room for diplomacy to resolve the crisis. However, he put Iraq on notice that terrorist acts against the US would amount to a "provocation" which could lead to immediate US military retaliation.

The secretary of state drew a contrast between possible unilateral US responses to terrorism and the preference for multilateral action in enforcing the UN embargo against Iraq.

In the absence of any obvious shift in strategy, the press and television in the US have turned their attention to the policy failure toward Iraq, prior to the conquest of Kuwait.

The New York Times devoted a whole page to an Iraqi-supplied transcript of a meeting between Mr Saddam and Ambassador April Glaspie, in which the US envoy said Washington had no view on the border dispute between Iraq and Kuwait.

Mr Baker said the fuss amounted to "retrospective scapegoating", and said any suggestion that the US encouraged the Iraqi invasion was ludicrous.

## Hussein urges forces to pull out

By Lamis Andoni in Amman

KING Hussein of Jordan yesterday demanded the immediate withdrawal of the multinational force from the Gulf in a televised message to the US Congress and people, less than 24 hours after Saudi Arabia cut off oil supplies to his country and ordered the expulsion of Jordanian diplomats from Riyadh.

The king's message was widely interpreted in Amman as a rejection of pressures from the US and Saudi Arabia - his country's two main financial backers - to support the western military mobilisation against Iraq in the Gulf.

"We are not going to join the warmongers no matter what," a senior Jordanian official said. The Jordanian position is likely to undermine its efforts to secure desperately needed international grants and financial support to salvage its rapidly deteriorating economy, Mr Basal Jandaneh, finance minister, said the kingdom stood to lose \$1.1bn (£2.2bn) as a result of the international embargo against Iraq, its biggest trading partner. He added that Jordan would need a minimum of \$1.5bn in loans and grants to manage its current fiscal problems.

The US has dissociated itself from Riyadh's decision to cut oil supplies to the kingdom and expel Jordanian diplomats, but the prevailing feeling in Amman is that the Saudi Arabian moves were encouraged by the US as punitive measures to force King Hussein to alter his position.

Jordanian officials said that King Hussein was walking a tightrope trying to reconcile his rejection of the Iraqi occupation of Kuwait and his opposition to western military intervention in the Gulf.

"We cannot condone the acquisition of territories by force... We also cannot accept the annexation of a country... because this will undermine our just case vis-à-vis Israel."

one senior official said. "But we also cannot accept this situation [the military build-up] to dominate the region at the expense of the people of the area and in the service of the selfish interests of others."

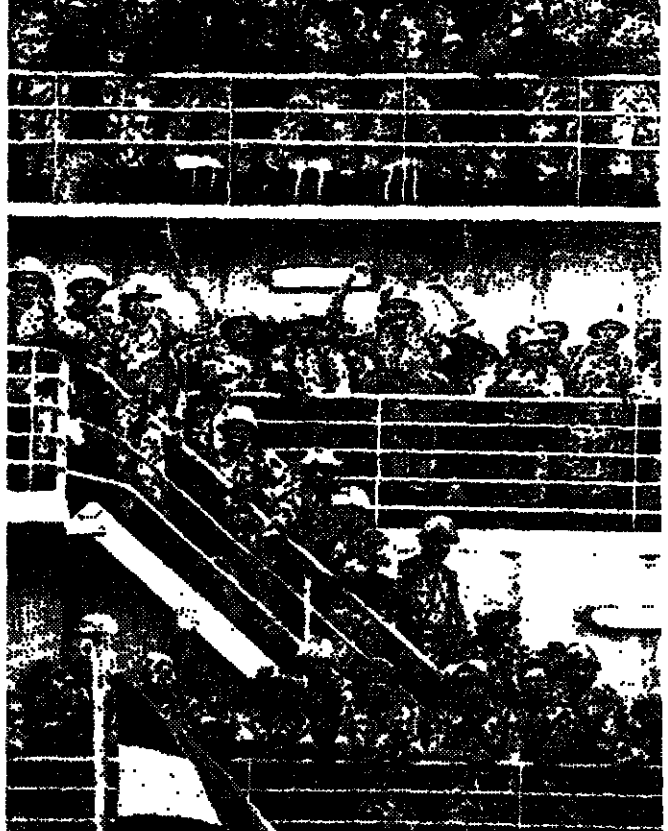
Officials concede that he is caught between a hardening on the part of Iraqi President Saddam Hussein, who would view a withdrawal from Kuwait as a defeat, and the apparent US desire to remove him.

Jordanians fear a military

confrontation in the Gulf could lead to Jordan sacrificing its existence as an independent entity.

Medical staff aboard the floating hospital ship USNS Mercy, a converted oil tanker on its first trip back to the Middle East, said yesterday they were preparing for heavy casualties in the Gulf.

"If there were any hostilities, there would be great numbers in the first days," said Captain Paul Barry, the ship's chief doctor.



Egyptian Special Forces soldiers arrive at the Saudi Red Sea port of Yanbu to bolster the pan-Arab forces against Iraq

## Assad presses reluctant Iran

By Tony Walker in Cairo and Kamran Fazel in Tehran

PRESIDENT Hafez al-Assad of Syria pressed Iran's leaders at the weekend to support the international campaign against Iraq's seizure of Kuwait. But Tehran made clear its deep unhappiness over foreign forces in the Gulf region.

Mr Assad, who has emerged as an unlikely ally of the US in the present crisis, is on a delicate mission to Tehran to persuade the Iranian leadership not to waver in its backing for UN sanctions against Iraq.

The Syrian ruler has also been at pains to reassure Iran that once the Gulf crisis ends foreign troops will leave. Syria itself has committed some 15,000 men to Saudi Arabia and the United Arab Emirates to confront Iraq.

"We declare and stress, without any ambiguity, that we will not accept the presence of foreign troops in this region after the Kuwaiti problem is resolved and after this pretext is removed," Mr Assad said on Saturday at a banquet given for him by Iran's President, Ali Akbar Hashemi Rafsanjani.

Welcoming his guest, Mr Rafsanjani used the occasion to launch a stinging attack on a US-proposed security structure for the Gulf region in the post-crisis era, describing it as an "arrogant scheme".

Coinciding with Mr Assad's arrival, it emerged that Iran had taken delivery of from the Soviet Union of an undetermined number of Mig-29s, the most sophisticated jet fighter exported by Moscow.

Mr Assad, who was Iran's only Arab supporter during the protracted Gulf war, is also seeking to persuade Tehran to improve relations with Saudi Arabia and Egypt. One of Syria's aims is to build a strong anti-Iraq axis among the region's main powers. But

as a sign of Iran's concern over the prospect of conflict in the Gulf, the Tehran Times said yesterday that a peaceful solution to the crisis was urgent.

Damascus and Baghdad, capitals of rival wings of the Arab Baath Socialist Party, have been at loggerheads for years. Mr Assad and President Saddam Hussein are bitter rivals.

Both Syria and Iran are in broad agreement in their opposition to Iraq's brutal takeover of Kuwait. But Tehran's position on the enforcement of UN sanctions against Iraq appears to have been wavering.

Relations between the Gulf war adversaries thawed following Iraq's acceptance of most of Iran's conditions for peace, including territorial claims. The two sides resumed diplomatic relations earlier this month after a three-year break.

According to the Iranian newsagency, IRNA, Presidents Assad and Rafsanjani "saw eye to eye on most regional issues". But Iranian opposition to the presence of foreign forces in the Gulf is a potential source of friction.

"We should not allow foreign forces who are all geared up to tighten their grip on vital oil resources, the Persian Gulf, the Red Sea and other sensitive points of the world, to remain in the region," Mr Rafsanjani said.

Mr Assad arrived in Tehran on the day that Iran staged a big military parade to mark the 10th anniversary of the Iraqi attack which it claims started the eight-year Gulf war.

Tehran Radio reported that Mr Assad flew to Mashhad yesterday to visit the city's shrine. He returned to Tehran in the afternoon for a meeting with Iran's religious leader Ayatollah Ali Khamenei and more talks with Mr Rafsanjani.

## Crisis overshadows UN debate

By Robert Mauthner in New York

THE Gulf crisis will overshadow the main debate of the United Nations annual General Assembly, which is due to open in New York today under a new president, Mr Guido de Marco, Deputy Prime Minister and Foreign Minister of Malta.

At the last minute, the General Assembly added the Iraqi occupation of Kuwait for priority consideration on its agenda of as many as 153 items.

Predictably, the Iraqi representative did not agree with the wording of the relevant item, which referred to "Iraqi aggression and the continued occupation of Kuwait in fla-

grant violation of the Charter of the United Nations".

He suggested that it would be more appropriate for the title of the item to refer to the US military build-up in the Gulf region. Though the assembly took note of the Iraqi position, the original wording was maintained.

The general debate begins today with speeches by some of the world's principal leaders, including 27 heads of state, 18 prime ministers and more than 100 foreign ministers, starting with addresses by the presidents of Brazil and France. Even more heads of government are expected to attend

the so-called "children's summit" organised by UNICEF next week-end.

There can be little doubt that the large number of heads of state and government have been attracted by the enhanced prestige of the United Nations, following the high profile it took in the Iran-Iraq war and, particularly, the current crisis in the Gulf.

While the General Assembly is not empowered to adopt binding resolutions like the Security Council, it provides a good forum for the smaller states, not least the developing countries, who have no say in the Security Council.

## Israel to seek help for migrants

By Hugh Carnegie in Jerusalem

ISRAEL this week will step up its appeal for aid to help it absorb hundreds of thousands of immigrant Soviet Jews when Mr Yitzhak Moda'i, finance minister, takes time off from the World Bank/IMF meetings in Washington to meet US officials.

The huge cost of accommodating the influx, expected to total 1m within five years, has been overshadowed in recent weeks by the Gulf crisis. Events in the Gulf have also complicated Israel's bid to seek financial help from abroad, pri-

marily from the US, which already gives Israel some \$3bn (£1.5bn) a year in military and economic grants.

But the immigration task remains an overwhelming issue in spite of the distraction of Iraq's invasion of Kuwait.

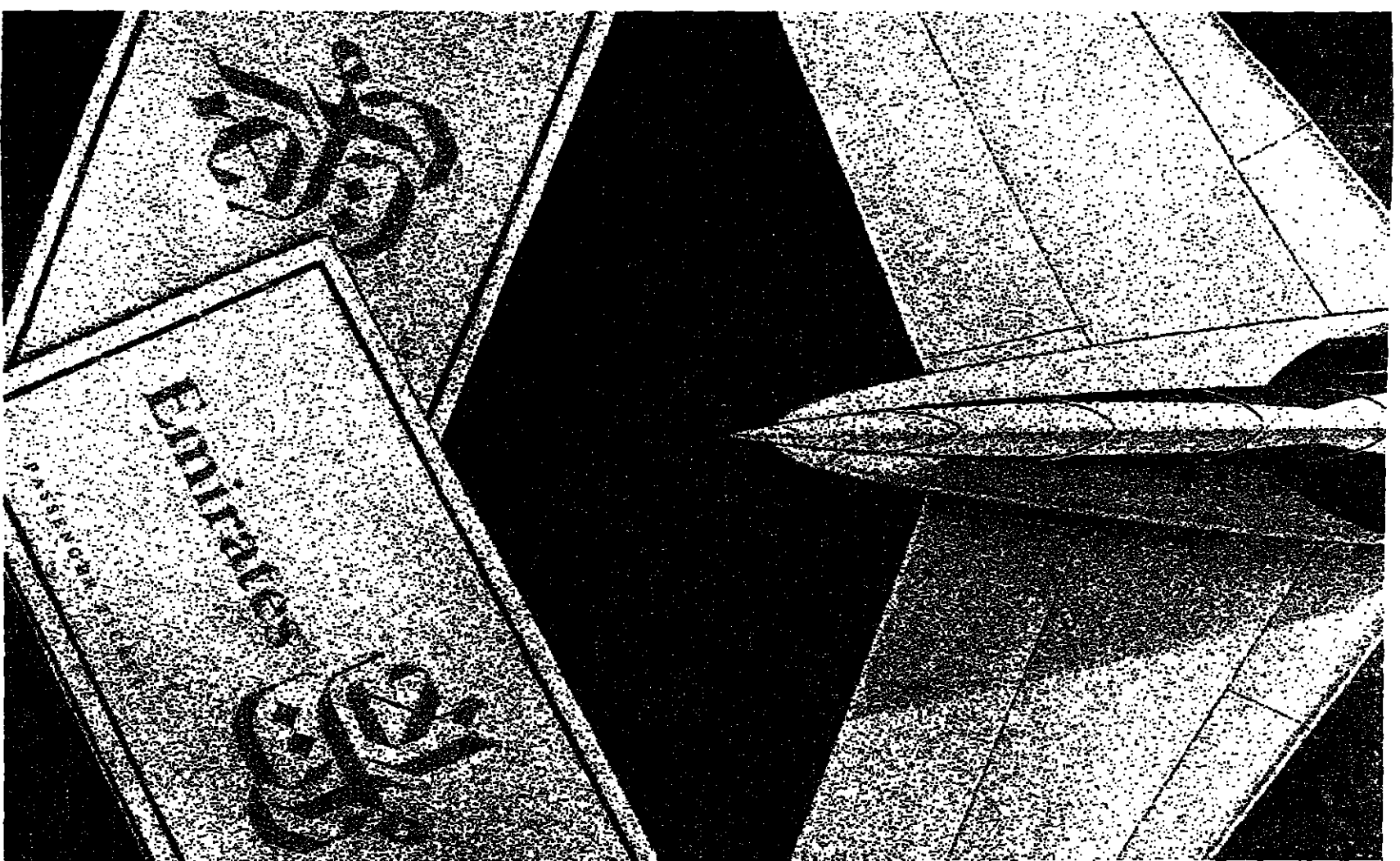
Finance ministry projections suggest that Israel will have to raise no less than \$18bn in aid and funds from the Jewish diaspora over the next five years, in addition to external borrowing of \$12bn. The government says EC countries should also help out.

The difficulty is that the appeal for help coincides with far more pressing aid priorities in Washington and elsewhere.

Already, requests by Mr Moshe Arens, defence minister, for increased military aid to offset big arms sales to Saudi Arabia and other Gulf allies against Iraq have met with a cautious reception in Washington.

The signs are that Mr Moda'i will not get much further in his planned meetings with Mr Nicholas Brady, US Treasury Secretary, and Mr James Baker, Secretary of State.

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If the proposals are implemented, the shareholders of the enlarged New Wits will benefit from a strengthened asset base and, in the longer term, from the combined mineral right portfolio. Selected and Wit Deep shareholders will gain these benefits in exchange for their existing holdings which usually trade at a substantial discount to net worth.

A circular containing full details of these proposals and convening meetings for their consideration by shareholders of New Wits, Selected and Wit Deep will be posted as soon as possible.

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## 'Limited scope in cross-border mergers'

Guy de Jonquieres examines a different approach

MERGER mania may have run its course in the US and Britain. But developments such as Pirelli of Italy's battle for control of Continental, West Germany's largest tyre-maker, suggest it is far from over in continental Europe.

That would be welcomed not only by fee-hungry investment bankers, lawyers and consultants, but by those Brussels policy-makers who believe mergers have an important role in re-shaping the structure of European industry ahead of 1992.

The Cecchini report on the single market, published by the European Commission in 1988, made much of the need to rationalise sectors where long-standing national trade barriers had bred fragmented, inefficient and excess capacity.

Since then the volume of deals has grown impressively. Last year, there were almost 1,300 cross-border mergers in western Europe together worth more than \$45bn (\$24bn), according to Translink, a research company.

Like the once-fashionable notion that companies would rush to centralise production for all of Europe in a few big factories in low-cost countries looks wide of the mark.

Manufacturers have poured into Spain, but many seem interested in producing there mainly for the local market.

Companies such as IBM and Matsushita of Japan, with extensive European operations, say they will continue, partly for political reasons, to manufacture in many different countries, even if efficiency suffers.

Conventional wisdom about the pattern of industrial



THE EUROPEAN MARKET

change is further challenged in a decidedly sceptical study of European mergers and acquisitions by the London Business School's Centre for Business Strategy.

It argues that, based on European companies' public statements, few cross-border deals are prompted by the search for bigger scale economies, the importance of which had in any case been exaggerated.

Unlike purely national mergers, the overwhelming motivation was to gain access to new markets.

The study also pours cold water on the idea that cross-border mergers are forging genuinely pan-European industrial structures. Not only were such deals more limited than crude statistics seemed to suggest, but they were not an especially effective method of building a solid base in the single market.

Possibly the most striking feature of European cross-border mergers is their rather limited scope. One definitely does not get the impression that merger activity represents a major inter-penetration of European markets by European firms," the study says.

Much of the recent growth in European mergers has been concentrated in Britain and involved UK companies. Though the number of EC mergers almost trebled between 1983 and 1987, deals across borders declined as a proportion of the total.

Cross-border mergers in Europe were "not a predominantly European sport but an Anglo-American game". British and US companies initiated 43 per cent of larger deals between 1986 and 1988, and companies from the rest of the EC only 17 per cent.

The evidence suggested that European companies viewed

mergers and acquisitions as much as a way to dominate their home markets or to expand overseas as to strengthen their presence in the Community.

Most cross-border mergers involving European companies were in adjacent countries. US and other non-EC companies had been more adept than their local competitors at using mergers to penetrate the European market as a whole.

There was only a tenuous link between those sectors where merger activity was most intense - chemicals, food and electrical and mechanical engineering - and those where excess and fragmented capacity made rationalisation economically most desirable.

The study's authors conclude from all this that, as a response to 1992, European mergers have so far been rather unimpressive. How well does this dismissive judgment stand up to closer scrutiny?

That most European mergers have so far been Anglo-American-inspired is indisputable, though it is less certain that will hold good now domestic activity in the US and Britain has abated. It is also true that many companies, particularly in the food sector, have viewed acquisitions primarily as a rapid way to gain a foothold outside their home market.

By concentrating narrowly on bare statistics, the study understates the extent to which once-chronically fragmented European industries have been rationalised by national and cross-border takeovers since the start of the 1980s.

In telephone exchange manufacturing, a classic national champion business, the number of European suppliers has fallen from 10 to four, while roughly 12 semiconductor makers have been consolidated into three main groups. Large chunks of the white goods industry have been absorbed by Electrolux of Sweden.

Philips of the Netherlands, Thomson of France and Nokia of Finland between them now control all European-owned production of consumer electronics. Since Asea of Sweden merged with Brown Boveri of Switzerland in 1987, it has made more than 60 acquisitions in heavy engineering, in Europe and overseas.

In chemicals, intensive merger activity has not cut the number of players as sharply as in other sectors. But it has contributed to a fundamental

shift in industry structure as companies' sharper focus on core businesses has caused them to trade peripheral activities, often across borders.

The unresolved issue is how far this restructuring has stimulated competitiveness. Much will depend on whether the challenge of digesting acquisitions and integrating mergers outweighs the expected benefits. Recent profit falls at some acquisition-hungry companies such as Electrolux and Rhône-Poulenc of France suggest the costs can be high, at least in the short term.

The study argues that many advantages of full mergers can be captured by less ambitious arrangements such as joint ventures, partial mergers and cross-shareholdings.

These, it says, offer a less risky way of surmounting the obstacles posed by Europe's diverse national laws and business cultures.

They were also the most effective means for UK companies to expand in continental Europe, where resistance to outright takeovers was often strong.

That still leaves open questions such as how successfully Anglo-US impatience for rapid financial returns can be reconciled with the longer-term approach prevalent elsewhere in Europe. But in the current business environment, a cautious, low-key approach may also have another virtue.

In some recent European mergers, industrial logic has been less obvious than the opportunistic impulse to nab partners while they were available, or the desire to defend against unwelcome predators.

Such deals have doubtless been influenced by the expectation that buoyant economic growth would provide a safety cushion if things went wrong. Uncertainties created by the Gulf crisis have made that assumption less plausible and narrowed the margin for error.

The study warns: "Those who rise too quickly to the dance floor for fear that there will be no one left, risk waking in the morning beside unsuitable partners."

The sternest test of Europe's corporate marriages may be how well they survive a more turbulent economic climate. "Continental Mergers are Different: Strategy and Policy for 1992." £10. Centre for Business Strategy, London Business School, Sussex Place, London NW1 4SA. Tel: 071-724 1975.

## China bid to rejoin Gatt is postponed

By William Dullforce in Geneva

CHINA'S application to rejoin the General Agreement on Tariffs and Trade has been effectively postponed until next year.

After a two-day meeting, the working party of Gatt members examining the application decided on Friday to draw up over the next two months a list of the many points concerning China's economic reforms on which it requires more convincing explanations from Peking.

The group put China's application on hold after the suppression of the student revolt in Tiananmen Square in June, 1989. Peking sent a 14-member team to Geneva last week to try to break the deadlock.

Avoiding reference to moral or human rights, the European Community and the US focused on the changes in economic policy introduced in the second half of 1989.

In their view, these modifications marked a retreat from the movement towards a decentralised, market-oriented economy that might have made China's trading structure compatible with Gatt.

The achievements of 10 years of reforms had been seriously damaged by the changes, the EC said. The policy of price fixation through state plans was a major step backward.

Fan Guoxian, leader of the Chinese delegation, promised the introduction of new reform plans in October.

But the EC commented sceptically on "new subtleties" in Chinese official statements, differentiating between economic reforms indispensable to the country and market-oriented reforms which might not be necessary.

## Syde decides to stay as Premier

THE political future of Mr Jan Syde, Norway's conservative Prime Minister, and his head of the centre-right coalition Government, looked increasingly in doubt following his decision to remain as Premier in spite of admitting to violations of Norwegian corporate law in his own companies' accounts.

The opposition Labour party, disgruntled with a report on the affair, say it will investigate the findings. The Prime Minister early last week had sought to quell controversy by hiring two of Norway's foremost authorities on accountancy and taxation to investigate and report on his private economic affairs.

Mr Syde said he found "nothing in this material" which would cause his resignation as Prime Minister. "I will remain to undertake further my and the Government's political work," he said.

However, the longer he stays on, the more likely the authority of the coalition Government will weaken. This would affect the work of the Storting, Norway's parliament, which reconvenes today.

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## Swiss vote for moratorium on building nuclear power plants

By William Dullforce in Geneva

SWISS ecologists and anti-nuclear groups succeeded in winning over 54 per cent of the vote for a 10-year moratorium on building new nuclear power plants, despite opposition from the Government and the power industry.

Another proposal calling for closure of existing nuclear plants as quickly as possible was narrowly defeated by a 52.9 per cent majority.

The demand for a vote on a moratorium was first made before the accident to the Soviet nuclear power station at Chernobyl in 1986. Since Chernobyl, Switzerland has observed a de facto moratorium on new plants, but the latest vote ensured this would remain the policy into the 21st century.

The second referendum was launched soon after. Pro-

ponents of the moratorium argued it would give Switzerland time to improve its energy saving methods and assess alternative energy sources.

The power utilities had warned that, unless two new nuclear plants were built, Switzerland could face a shortage of some 7bn kilowatt-hours of electricity in the winter of 2004 to 2005.

Two years ago the government halted construction of a plant at Kaiseraugst near Basel. The project has now been scrapped and SFR500m (\$265m) has been paid to its developers. Plans for a plant at Graben had also been virtually abandoned before the vote.

In a third referendum, 71 per cent of voters approved a new law giving greater powers to the federal government in determining energy policy. In

1983, most of the cantons refused to delegate such authority.

The government will now be able more easily to set standards for energy use in factories, appliances and cars, and promote energy conservation more effectively.

In a separate development, Swiss voters approved by a 52.8 per cent majority a government proposal extending from 2.3 metres to 2.5 metres the limit on the width of lorries allowed to use Swiss highways.

The government has exempted the greater part of the road network from the lower limit. But the narrowness of the vote shows the strength of the opposition to allowing greater use of Swiss motorways for heavy traffic between the EC's northern and southern states.

## Duty on emissions proposed

By David Goodhart in Bonn and our Foreign Staff

A DUTY on carbon dioxide emissions of DM10 per tonne has been proposed by the West German Environment Minister, Mr Klaus Töpel.

The duty, which analysts believe has a reasonable chance of becoming law in the next two years, would raise about DM5bn (£1.6bn) per year. Germany would become the first major European country to adopt such a duty, re-emphasising its vanguard role in environmental politics.

Mr Töpel will formally present his proposal to the West German cabinet in November.

The German move coincided

with moves by Mr Carlo Ripa di Meana, the EC environment commissioner, to introduce a Community-wide tax on oil, coal and natural gas.

He told a meeting of EC environment ministers in Rome at the weekend that such a tax could be used to encourage energy efficiency.

However, there was no agreement on the proposal, with some countries arguing that there was no need for such action at a Community level.

The German government has chosen a special carbon duty in favour of a tax so that the

income can be directly ploughed back into measures to reduce carbon emissions, which contribute to the "greenhouse effect".

In June, the West German Government committed itself to reducing carbon emissions in West Germany by 25 per cent by the year 2005.

Last week, the Bundestag commission on the protection of the atmosphere proposed a 30 per cent reduction by 2005, but this would be for the whole of Germany. That would mean a cut of about 820m tonnes from the current level of just over 1bn.

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2000's						
8750	Ass. Brit. Ind. Ord.	270	-6	10.3	3.8	7.3
600	Aventures and Risks	34	-	-	-	-
9090	Barton Group (S)	115	-59	4.3	3.7	11.2
12512	Barton Group (S) Prof. (S)	75	-30	6.7	6.9	-
4113	Bey Technologies	60	-2	5.9	8.7	6.0
	Bentley Corp Prof.	80	-2	11.0	13.8	-
1174	CCS Group Ordinary	309	0	14.7	4.8	3.8
2000	CCS Group 11% Corp Prof.	160	0	14.7	9.2	-
16740	Carlini Pte (S)	220	0	7.6	3.5	12.9
770	Carlini 7.5% Prof (S)	110	0	10.3	9.4	-
	Clasport Co Non Voting S Corp	0.1	0	-	-	-
	Clasport Co Non Voting S Corp	0.1	0	-	-	-
2788	Isis Group	35	-14	8.0	22.9	2.0
20827	Jackson Group (S)	97	-8	3.6	3.7	11.3
1725	Katharine N.V. (S)	230	-30	-	-	-
1397	Robert Jackson	137	-4	10.0	7.3	5.0
15120	Scrymgeour	315	-2	18.7	4.0	8.4
	Unifirst Europe Corp Prof	170	-3	9.5	5.5	-
3600	Versar Group Co. Pte	220	-4	22.0	9.9	9.4
8064	W. S. Yates	360	-7	16.2	4.3	30.0

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FINANCIAL TIMES MONDAY SEPTEMBER 24 1990

5



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TURNOVER	382,919	363,570	723,454
TRADING PROFIT	16,820	26,251	48,337
Share of Profit of group Co.	847	1,985	2,004
Share of Profit of related Co.	853	516	715
PROFIT BEFORE TAXATION	18,520	28,752	49,056
Taxation	6,767	9,551	13,947
PROFIT AFTER TAXATION	11,753	19,201	35,109
Dividend	—	15,000	18,000
RETAINED PROFIT	11,753	4,201	17,109

In the first half of 1990 the Company results were affected by a downturn in demand and high financial charges. Factory output had to be limited and the range produced increased to meet customer requirements. Domestic sales weakened as the Original Equipment market suffered from lower levels of vehicle production. Export revenues benefited from the relative strength of other currencies. Associated Tyre Specialists Limited again made a significant contribution to Group results. The economic conditions prevailing in the first six months are expected to continue at least until the end of the year. Note: The results for the year ended 31st December 1989 are based on the full audited accounts filed with the Registrar of Companies on which the auditors gave a qualified report.

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Luxembourg, September 24th, 1990

## INTERNATIONAL NEWS

## Brussels outlines exchange system overhaul

By Lucy Kellaway in Brussels

RADICAL ideas for overhauling Europe's electronic and cash payments system will be put forward this week by the European Commission. The proposed changes would allow exchanges between EC states to be made as simply as in a single country.

The suggestions, made in the form of a green paper, are likely to receive a cool response from commercial banks, which are worried that their profitability will suffer as a consequence and that they would have to make expensive changes in their financial networks. Central bankers also are likely to be concerned about the regulatory implications of the proposals.

Sir Leon Brittan, the competition commissioner, argues that much of the benefit of the single market will be lost if payments between EC countries

remain slow and costly. But the Commission is undecided about whether to introduce directives to force a change in payment systems, or whether to leave member states free to reach agreements among themselves.

Sir Leon's paper, which focuses on payments made by individuals and smaller companies, makes a number of suggestions to help make the system function better.

● Cash transactions: As currencies become firmly pegged to one another in the movement towards monetary union, cash transactions between them should be made free of any commission or other charge, as is the case between the British and Scottish pounds.

In the meantime the Commission intends to step up its efforts to ensure foreign exchange commissions are fully

transparent and represent fair value.

● Transfers: The present elaborate and slow system of transfers through correspondent banks should be replaced by a European Automated Clearing House, a new body that would provide a link between national clearing systems. Such a body would have important regulatory consequences, as it would mean that central banks would no longer be responsible for the clearing of all payments made by banks in that country.

The paper also suggests minor changes to payments by Eurocheque and credit card, as both mechanisms already offer fairly smooth means of payment between member states.

Earlier drafts of the document met strong resistance from commercial bankers worried that the proposals could threaten lucrative commission

income from foreign exchange transactions and from their correspondent banking networks. They were also sceptical over whether it was the Commission's job to set itself up as a trouble-shooter in a commercial matter.

The Commission, which is inviting comments from the financial community, consumers and national authorities, is hoping to convince banks that their attempts to protect the status quo are doomed to failure. It has suggested that the ideas in the green paper are only proposals.

Sir Leon next month will present the paper to a conference of bankers in Brussels. A committee, likely to consist of representatives from central banks, existing clearing organisations and commercial banks, will be set up early next year to discuss the plans.

## EC row builds up over sugar quota for East Germany

By Tim Dickson in Brussels

A BITTER behind-the-scenes battle is being played out in Brussels over the proposed European Community sugar quota for East Germany.

The issue, one of the most divisive problems in the whole package of EC measures needed to accommodate an enlarged Germany, is expected to flare up today or tomorrow at a meeting of Community farm ministers.

Many believe the outcome also has significant implications for the international trade talks known as the Uruguay Round.

A number of EC countries and much of the Community's sugar processing industry allege that the Germans are being offered an unrealistically high sugar production ceiling which will not only swell existing EC surpluses but land others inside Europe with a hefty bill for its disposal on world markets.

The absurdity of adding to the food mountains at a time when the Common Agricultural Policy (CAP) is supposed to be brought under control might seem a patent enough argument for most, but the prospect that other producers may be hit in the pocket because of the complex rules of the sugar regime is fuelling most of the concerns.

EC sugar production is controlled by two types of quota - the A quota, which roughly equates with the Community's own needs and qualifies for the full support or "intervention" price, and the smaller B quota, equivalent to EC exports and for which a lower guaranteed price applies. The main cost to the EC budget - export subsidies - is clawed back each year through processing charges levied on producers (2 per cent for A quota, up to 37.5 per cent for B).

The system allows Brussels to claim that the sector is self-financing, which may be some comfort to taxpayers but is little consolation to consumers who pay for the industry's protection through high prices.

Political considerations apart, it is difficult to find any justification for the East German figure as it stands. Under the European Commission's proposal, the country's overall sugar quota has been fixed at

870,000 tonnes a year (865,290 tonnes of A quota, 204,710 tonnes of B quota), which will yield Brussels levies of roughly Ecu50m (£34.8m) to pay for any exporting costs.

Assuming an export subsidy of around Ecu400 a tonne, the EC will be able to afford to export 125,000 tonnes of surplus East German sugar within the current restraints of the regime.

Much depends on East German consumption, for which reliable figures do not exist. According to the International Sugar Organisation, annual consumption in East Germany between 1984 and 1988 was 680,000 tonnes of white sugar equivalent, while the West German industry's own estimates suggest a figure of 665,000 tonnes on average over the past five years.

Even taking the highest historic projection, there appears certain to be a much bigger shortfall between production and domestic consumption than the 125,000 tonnes "permitted" under the rules of the regime.

What is alarming and angering the industry and other member states is the knowledge that consumption in East Germany is falling sharply and is bound to plunge further as hitherto subsidised sugar prices move sharply up.

The Bonn government claims East Germany is simply getting its fair entitlement of quota, though many suspect that the powerful West German sugar industry will exploit the situation to grab a share of the extra production.

Mr Ignaz Kiechle, West German farm minister, is certainly showing no signs of backing down and is demanding that the figure be increased to 950,000 tonnes.

This is widely seen as a tactical ploy to make the 870,000 tonnes seem more respectable in face of almost total opposition from other member states, led by the UK, the Netherlands and Denmark.

France has also protested, and Spain seems determined to thwart East Germany on the grounds that it was treated badly at the time of accession in 1986. Belgium insists that other producers should not have to bear the cost.

## Italian building group accuses French of cartel

By William Dawkins in Paris

FRENCH cartel authorities are examining controversial allegations which vigorously deny wrongdoing. Mr Alain Vivier, managing director of ASF, said the Italian group's offer had not been accepted for "serious technical reasons".

The dispute comes a year after the Competition Council shocked the French construction industry by imposing record fines of FF166m (£16.7m) on 80 road building and construction companies - though not Dumez - for illicit price-fixing.

This also throws a public spotlight onto competition in the French construction industry ahead of a debate in the French Senate, on October 4, on a proposed law to strengthen free competition for public contracts.

tract, and Dumez, the French construction group, both of which vigorously deny wrongdoing. Mr Alain Vivier, managing director of ASF, said the Italian group's offer had not been accepted for "serious technical reasons".

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## Strike brings trash piles to Paris streets

By William Dawkins

A STRIKE by Paris garbage truck drivers has forced the city authorities to call in private contractors over the weekend, at an estimated cost of FF10m (£1m) a week.

The stoppage, which follows a strike by garbage collection teams last May, could become an embarrassment for Mr Jacques Chirac, the mayor of Paris and president of the RPR right-wing Gaullist party.

Mr Chirac's mayoral record is important to rebuilding his national political reputation, which two years ago took a battering with the Socialist victory in the last presidential election. It has continued to suffer from divisions in the RPR leadership.

The strike, called by the Communist-led CGT trade union, involves a dispute over wages. About 90 per cent of the city's 600 garbage truck drivers have joined the action.

Rubbish has been piling up on city pavements since the action began early last week. Drivers have also blockaded three garbage incinerators.

Mr Chirac has declared the strike illegal and argues that he cannot change wage structures set by the national government.

Negotiations are continuing.

## De Larosière affirms support for early EMU

By George Graham in Paris

THE Bank of France has reiterated its support for quick progress towards full economic and monetary union in Europe, despite hesitation by some other European central banks.

Mr Jacques de Larosière, governor of the French central bank, made this point in a speech to the association, Europe et Entreprises.

He called for a rapid move from Stage One of the Delors plan for monetary union, under which the EC would move towards better monetary co-ordination in the existing framework of the European Monetary System, to Stage Two, with introduction of a new EC treaty and creation of a European central bank system, and then to Stage Three, where European exchange rates would be irrevocably fixed and a single European currency issued.

Mr de Larosière has remained relatively silent in recent weeks, while some colleagues, notably Mr Karl Otto Pöhl, president of the West German Bundesbank, have voiced their belief that it will take many years to overcome technical obstacles in the way of Stage Three.

The French central bank governor said transitory measures should be worked out to take account of the diverse levels of development, productivity and investment needs in the EC, but that every member state should be involved.

He said that proposals for strengthening the Ecu, advanced by the UK, should be "studied with all the care necessary", but only in so far as they helped the process of monetary union and neither compromised nor delayed Stage Three of the Delors plan.

## Basque separatist suspect arrested

FRENCH police yesterday arrested a suspected guerrilla leader of the Basque separatist movement Eta in an operation planned by French and Spanish security forces, Reuter reports from Madrid.

The Interior Ministry said the suspect was seized in the

southern French resort of Biarritz. He was alleged to be one of the leaders of Eta (Basque Homeland and Freedom) and a commander of its armed groups fighting for an independent Basque homeland. The ministry described the capture as a very important arrest.

## France acts over attacks on imported livestock

By William Dawkins in Paris

FRENCH justice authorities have launched 12 legal proceedings into attacks on trucks of imported meat and livestock, a move that should allay British fears that France was slow to clamp down on wrong-doers.

The development coincides with the opening of talks between Crédit Agricole, France's largest bank, and the Government on a possible increase in the agricultural bank's assistance for farmers pushed to the brink of financial collapse by falling meat prices.

The Government announced FF1.2bn (£120m)-worth of aid last month, followed by the Crédit Agricole with a cheap loan package, estimated by the bank to be worth FF200m, but

criticised by the Government as inadequate.

Both moves are likely to help defuse the crisis, in which angry farmers have resorted to guerrilla warfare against cheap meat imports, especially British lamb and East German beef.

Violence has subsided over the past week and the rioters have attracted little public sympathy, yet the Government is still left with a political problem among its farmers, who make up 9 per cent of the population.

Three of the legal proceedings are requests from the justice authorities that local tribunals open prosecutions, one of which involves three farmers suspected of being involved in the

burning of a British truckload of live lambs last month.

The remaining nine are preliminary inquiries, likely to lead to prosecutions, while a number of other proceedings are also in the pipeline, the Justice Ministry said.

Meanwhile, the Crédit Agricole has submitted to growing pressure from the Government to consider more farming aid, under threat of being stripped of a valuable privilege which the bank kept after being privatised by the last right-wing government.

Traditionally, the bank has had a monopoly over funds managed by country notaires - public solicitors who handle wills and property transac-

tions - a business which brings it FF17bn of deposits, on which the bank pays just 1 per cent interest.

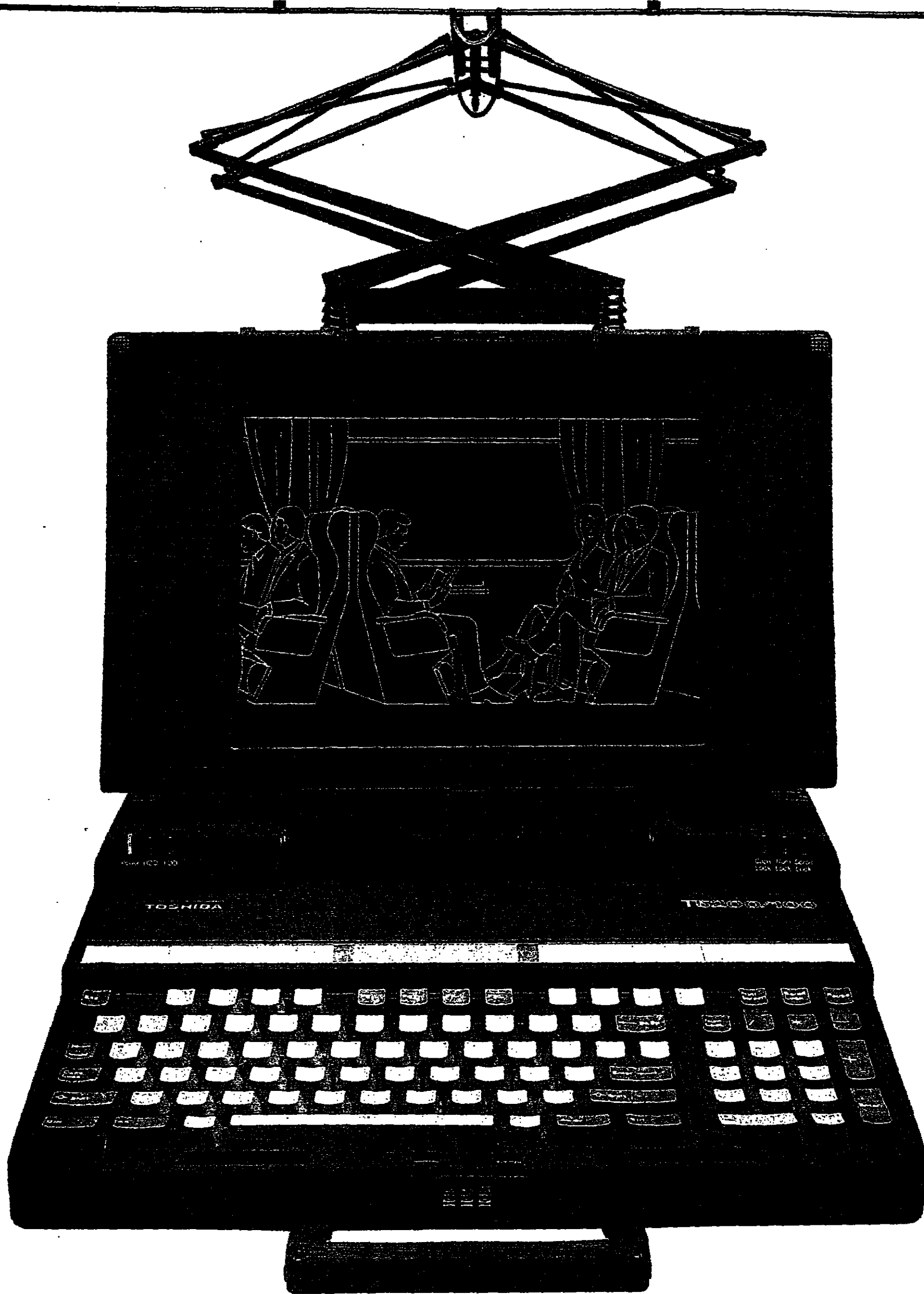
Urban notaires make their deposits with the state financial body, the Caisse des Dépôts et Consignations.

The Government has always wanted to remove this advantage from Crédit Agricole, to make it compete on normal terms, but the bank argues that it needs cheap funds to support the low interest loans it makes to farmers.

Crédit Agricole is not thought likely to win the battle, though it may get a say in the terms under which the notaires' business is removed, if the bank satisfies the Government on farm aid.



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## INTERNATIONAL NEWS

## De Klerk to assure Bush of 'irreversible' changes

By Lionel Barber in Washington and Philip Gawth in Johannesburg

PRESIDENT F.W. de Klerk yesterday arrived in the US, the first visit by a South African head of state since Jan Smuts visited the White House 43 years ago.

The trip represents a big step forward in the country's gradual political rehabilitation following the reform process embarked upon by Mr de Klerk on taking office last year.

This theme was taken up by Mr de Klerk on his arrival at Andrews Air Force base. "South Africa has embarked on a great journey," he said. "It is a journey toward full democracy at home, and abroad, full participation in the family of nations."

Later in the day, he invoked Martin Luther King as he pledged that his government was committed irreversibly to dismantling apartheid and to sharing power with the black majority in South Africa.

The focus of Mr de Klerk's three-day trip is his meeting today with President George Bush. Mr de Klerk has said he wants to tell Mr Bush of the "irreversible momentum" towards a new constitution and the process of change in South Africa.

However Mr de Klerk made clear that he was not bringing a "shopping list" to the US including demands for lifting economic sanctions.

Mr James Baker, US Secre-



President de Klerk (left) and his wife Marike meet US Secretary of State James Baker and his wife Susan

tary of State, said everyone in the US should be encouraging all sides in South Africa to continue negotiations.

The administration would like to lift sanctions, but does not want to risk a political battle with Congress until further progress is made in line with the conditions set down by the 1986 Comprehensive Anti-Apartheid Act.

Mr Bush, however, has to report to Congress on October 2 concerning progress South Africa has made in meeting the key provisions of the CAAA and will be anxious to confirm the factual position.

By common consent the main steps remaining are the lifting of the State of Emergency in Natal, the scrapping of the Group Areas and Popu-

lation Registration Acts and the

start of negotiations. The other major aim of the trip will be to allow the two presidents to establish a personal rapport, and to give President de Klerk the opportunity to speak to the American public.

At home Mr Nelson Mandela, African National Congress (ANC) deputy president, continued his criticism of recent government steps taken to address the violence, but reaffirmed the ANC's commitment to the negotiation process. "Only when the ANC and the government are talking to each other will we have peace in this country," Mr Mandela told a gathering at the launch of a new ANC branch in Kwa-thema. "We are compelled to work together through thick and thin."

## Peru cuts import tariffs sharply

THE Peruvian government has announced sharp cuts in import tariffs. Sally Bowen writes from Lima.

Imports previously subject to combined tariffs and taxes of up to 200 per cent will now incur a maximum tariff of 50 per cent.

The ruling establishes three tariff levels of 15, 25 and 50 per cent. Foodstuffs and medicines will come in at the lowest level, with inputs and "intermediate" goods in the middle bracket.

## Suicide provokes protests in India

Violent demonstrations in northern India gathered momentum over the weekend after a student took his life in protest against Prime Minister V.P. Singh's job reservation programme, David Housego reports from New Delhi.

Sushil Kumar, a 16-year-old schoolboy, poisoned himself at Kurukshetra, a holy Hindu town in Haryana province, and in a suicide note held the Prime Minister responsible for his death.

## Lahore court summons Bhutto

A special court in Lahore yesterday issued a notice to Ms Benazir Bhutto, the ousted Prime Minister of Pakistan, requiring her to appear on October 2 to face proceedings alleging misconduct during her 50 months in office, writes Farhan Bokhari in Karachi.

Ms Bhutto's government was dismissed on August 6 by President Ghulam Ishaq Khan, on allegations of widespread corruption, denied by Ms Bhutto.

**Managua plans spending cuts**  
The Nicaraguan Government is to axe jobs and spending in the public sector, following its failure to stabilise the hyper-inflation-prone economy with heterodox adjustment policies during its first five months in office, writes Tim Coone in Managua.

## Farmers' co-operative lends Y20bn to struggling affiliate

## Interest rates hit Japanese banks

By Stefan Wagstyl in Tokyo

NORINCHUKIN, the Japanese farmers' national co-operative bank, is planning a low-interest loan of about Y20bn (£77m) to support a provincial affiliate which is struggling to cope with mounting bad debts.

The move is the strongest indication so far of the damaging impact of rising interest rates on Japanese financial institutions.

It follows news last week that shinkin, small co-operative banks, are proposing to double the size of a national mutual rescue fund to Y20bn. In addition, Itoman, a medium-sized trading company, disclosed plans to sell land to cut its property borrowings, estimated at Y850bn, though it denied it was under financial pressure.

The Bank of Japan, which has been pushing up interest rates for 18 months to ward off inflation, wants to see a decline in the growth of bank lending, particularly in property loans. But in the wake of this year's 40 per cent fall in equity prices, the central bank is also concerned lest its actions precipitate a rapid decline in land values.

Norinchukin's planned move is designed to deal with a long-standing problem in Kagoshima, a rural prefecture in western Japan, where the prefectural federation of farmers'

co-operatives took over the loan books of several local co-operatives after they ran into financial difficulties three years ago.

The prefectural federation worked out plans to trade its way out of the bad loans over time but its programme was upset by the recent rise in interest rates. It will probably use the low-interest funds from Norinchukin to generate extra

March, mainly through mergers. It is planned to decline further to about 1,000 early next century.

Shinkin co-operative banks face similar pressures from financial deregulation. The support fund which the movement wants to expand pays out low-interest loans to members which are in financial trouble. Itoman has more than doubled its bank borrowings in the

its total borrowings.

Some Itoman executives believe the finance ministry wants to make a public example of their company. A ministry official denied this, saying that it was not the ministry but Itoman's bank which was responsible for putting the guidelines into effect. Sumitomo Bank, Itoman's main bank, said it was co-operating in Itoman's property disposal programme. It was for Itoman to say why it was selling property, said Sumitomo.

Itoman, an old-established Osaka-based trading company specialising in textiles, had consolidated sales of Y877bn in the year to March and profits of Y15.8bn pre-tax. It belongs to a family of companies headed by Sumitomo Bank.

The company's ratio of equity to total assets stood at just 14 per cent at the end of March. But low ratios are normal for Japanese trading companies which use borrowings to fund their stock-in-trade. Moreover, Itoman's ratio has actually improved during the time it expanded its borrowings - from under 7 per cent in 1986. However, the proportion of property loans has increased greatly. It may find it difficult to sell property as prices are stagnating, and in some places declining, following a period of soaring increases.

The total number of co-operatives fell by 211 to 3,698 in the year to March, mainly through mergers.

profits by placing them on deposit at (higher) money market rates.

Norinchukin said the Kagoshima case was unprecedented. Its action plan was not a rescue but a support measure. Norinchukin said rising interest rates put extra pressure on bank managers to perform well.

The farmers' co-operative movement is in the throes of a long-running rationalisation, designed to make the co-operatives more efficient. They have to adjust to financial deregulation, which is exposing them to increased competition from big banks and others. The total number of co-operatives fell by 211 to 3,698 in the year to

last five years to Y1,085bn at the end of March 1990 and invested much of the funds in property. Nikkei Shimbun, Japan's business daily, estimated its property loans would stand at Y850bn when it closed its books for a half-year report at the end of this month.

Itoman said yesterday it had no problem coping with higher interest rates. It said it was selling land and cutting debt in order to comply with a guideline set by the finance ministry this year intended to curb property-related borrowings. According to this guideline, banks are required to ensure that the growth rate of a client company's property loans does not exceed the growth rate of

## N Korea to receive mission from Tokyo

By Stefan Wagstyl

JAPAN'S ruling Liberal Democratic Party was due today to send a mission to North Korea, a move which could lead to a thaw in the ice-cold relations between the two countries.

A significant improvement in ties would provide new evidence that, with the apparent end of the Cold War, Pyongyang is preparing to end its isolation from the non-communist world. The Japanese mission coincides with talks between North and South Korea over establishing official contacts for the first time since the end of the Korean War.

Previous attempts by Tokyo to establish an official dialogue were spurned by Pyongyang, which nevertheless retained an informal channel of communication through regular visits

from members of the opposition Japan Socialist Party.

The LDP delegation is being led by Mr Shin Kanemaru, a former deputy prime minister and one of the most powerful men in the party. Top of the agenda for his five-day visit is trying to secure the release of two Japanese seamen held prisoner in North Korea since 1983, when they were seized after their ship had been used by a North Korean soldier to escape to Japan. Tokyo regards the seamen's release as a *sine qua non* of improved relations.

Japan also hopes North Korea will agree to the setting up of non-government liaison offices in Tokyo and Pyongyang as a first step towards the eventual establishment of full diplomatic relations in a few years.

North Korea has always rejected any suggestion of government-to-government contacts with Japan, as it does with any country which recognises South Korea. It has insisted that officials accompanying Mr Kanemaru are called "clerks".

However, diplomats in Tokyo believe North Korea is becoming more flexible in response to South Korea's success in improving relations with both Peking and Moscow, formerly Pyongyang's biggest backers.

Diplomats believe Pyongyang has hopes of eventually securing Japanese aid for its ailing economy. It also wants compensation for suffering inflicted by Japan during colonial rule.

Japan will be anxious to

avoid offending Seoul in any settlement of claims with Pyongyang. Aside from money, the wording of any apology would be a difficult matter.

Whatever the outcome of Mr Kanemaru's visit, Japanese companies do not expect any immediate upswing in business with North Korea. Two-way trade totalled Y68.3bn (£264m) last year - half the figure for 1980. Moreover, 80 per cent is estimated to be carried out under the auspices of the Association of Korean Residents in Japan, a pro-Pyongyang organisation which oversees the collection of large private donations for North Korea.

Japanese trading companies say that Y80m of unpaid trade debts would have to be repaid before normal trade could resume.

## Anger at death of Israel soldier

By Hugh Carnegie in Jerusalem

PALESTINIANS travelling to work yesterday were attacked by angry Israelis, and right-wing politicians called for retribution, on the first working day since the stoning and burning to death of an Israeli soldier in the occupied Gaza Strip.

Parliament has been recalled on Wednesday for a special debate on the killing, which took place last week on the Jewish New Year holiday. It was the first death of a soldier in the occupied territories since last November.

A recent army policy of maintaining a lower profile in West Bank and Gaza trouble spots, which has helped pro-

duce sharply lower casualty tolls in the Palestinian uprising, is likely to come under question during the debate.

Yesterday, at a cabinet meeting, Mr Rafael Eitan, Agriculture Minister and an extreme right-wing former chief of staff, criticised Mr Moshe Arens, the Defence Minister, and called for draconian collective punishment for the occupants of Burei refugee camp, where the killing took place.

The reserve soldier was heading for duty at an army post in his private car when he apparently took a wrong turn and was attacked. He hit a donkey cart, injuring two children, as he tried to escape and the

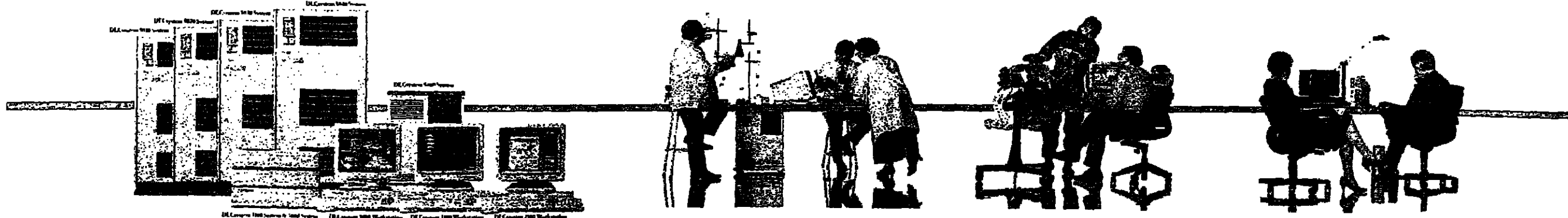
enraged mob stoned him unconscious and set fire to his vehicle.

It was a graphic illustration that the *intifada* (uprising), now more than 2½ years old, continues to fester, despite a recent decline in violence. Nearly 700 Palestinians have been killed by Israelis and 50 Jews have been killed by Palestinians in the conflict. A further 240 Palestinians have been killed by fellow Arabs.

Mr Eitan said all houses around the scene should be flattened by the army as punishment - a policy likely to be used at least against the dwellings of prime suspects - and those responsible deported.

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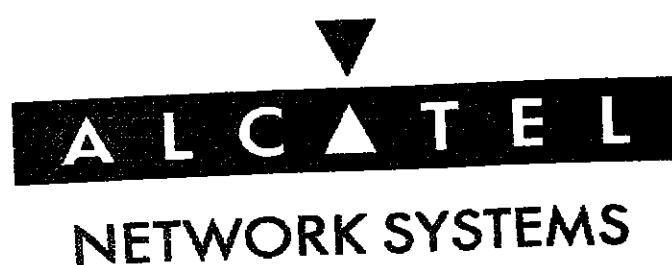
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## LEGAL COLUMN

Giving advice direct to the public could cause loss of status

## Redefining the barrister's role

By Robert Rice, Legal Correspondent

WHEN IS a barrister not a barrister? The answer ought to be straightforward enough. In reality, however, it has become increasingly difficult to draw a line between the rights and professional obligations of barristers employed in commerce and industry and those of independent barristers practising at the Bar.

The Bar Council was faced with the embarrassing prospect of having to disbar hundreds of barristers who are now working for solicitors and accountancy firms and offering advice directly to their employers' clients so it set up a working party under Mr Justice Mummery.

The purpose of the working party was to examine the present status of employed barristers and their relationship with barristers in independent practice and make recommendations for change.

The Mummery Report, published last week, tackled the problem by dividing barristers into three broad categories with different rights and obligations: barristers in independent practice; employed barristers; and non-practising barristers in employment.

The report also reaffirmed that practising barristers must not provide legal services direct to the public. In the short term it will save the Bar Council from having to disbar as many as 600 or 700 barristers.

However, set against the current background of deregulation of the profession and the sweeping away of restrictive practices, in the longer term the report's recommendations may not go far enough towards meeting the aspirations of those barristers who do not practise independently at the Bar but who wish to be free to exercise in whatever way they choose.

The central question facing the Mummery working party was to what extent the current restrictions on employed barristers' rights can be justified. These limits are on rights of audience; rights to conduct litigation; rights to instruct barristers in independent practice; and rights to supply any other legal services.

There was also the issue of whether barristers should be allowed to enter into multi-dis-

ciplinary partnerships with other professionals, and whether employed barristers should be allowed to supply legal services to their employers' clients.

The working party also had to consider whether the current restrictions and any proposals it made for change were valid and enforceable in law. Even if they were, the working party had to consider the Government's policy commitment towards eliminating restrictive trade practices, even within the professions, which it outlined in a white paper published last year.

Although the Bar's code of conduct provides different rules for practising barristers and employed barristers, some aspects of it apply to both categories, in particular the requirement that barristers should not provide legal services direct to the public.

**If they act outside the rules they risk being disbarred**

In the case of employed barristers this has in the past had the effect of limiting the work they can do in advising their employers.

Recently, what the Bar describes as a "small but increasing number" of barristers have been committing a disciplinary offence for which they can be disbarred by providing legal services direct to the public.

Most of the offenders are barristers working for professional firms of accountants, surveyors and foreign lawyers practising in the UK.

Barristers employed by accountants are the worst offenders. The Mummery Report notes that it is often said to be difficult and artificial to draw a line between employed barristers providing advice to their employers and providing advice to the employers' clients.

But in practice, it says, no real difficulty exists. One large firm of City accountants told the working

party that they employed barristers to give tax advice to their clients and for no other purpose.

Barristers providing advice to their employers' clients have three options under the existing rules.

They can either stop providing legal services to their employers' clients; cease to be employed by the firm and comply with the rules applicable to barristers in independent practice; or cease to be a barrister altogether, get themselves voluntarily disbarred and become a legal consultant to their employer.

If they continue to act outside the rules they risk being disbarred against their wishes. The Mummery solution to balancing the different demands of independent practising barristers and employed barristers is to allow the minimum relaxation in the restrictions governing employed barristers which it thinks it can get away with.

This will have to be done without falling foul of either the new professional regime which will be ushered in by the Courts and Legal Services Bill or the Government's restrictive trade practices policy.

Thus the existing prohibition in the Bar's code of conduct on barristers entering into multi-disciplinary partnerships is to be retained.

The Mummery Report argues along the Bar's official line that the public interest in maintaining the ban far outweighs any competing private or public interest in lifting it.

The Bar will thus retain its ban on multi-disciplinary partnerships at a time when the solicitors' profession has just been served with notice by Sir Gordon Borrie, Director-General of Fair Trading, that he is not prepared to allow the Law Society to keep its ban on such partnerships for its members.

The Mummery Report also recommends that there should be no extension to the rights of audience of employed barristers.

To allow employed barristers to provide advocacy services to anyone other than their employers would permit barristers to provide advocacy services to the public generally, without being self-employed,

sole practitioners or consultants.

Indeed, the report says there is a risk that the extension of rights of audience of employed barristers would be detrimental to the quality and cost of the service to the public, on the degree of client choice; and on the proper and efficient administration of justice.

During the passage of the Courts and Legal Services Bill, the Bar used the same arguments against giving solicitors extended rights of audience in the higher courts. This recommendation is less likely to be acceptable to the Government because it will prevent all employed barristers in the Crown Prosecution Service from gaining rights of audience in Crown Court trials. It would also result in the ridiculous situation of employed barristers having more restricted rights to appear as advocates than many solicitors.

Having ensured as best it can the protection of the practising Bar's position, the Mummery working party turned its attention to ways of extricating the Bar Council from having to disbar employed barristers who offer advice directly or indirectly to their employer's clients.

Thus it created three categories of barristers:

- Independent practising barristers will continue to receive instructions only from solicitors and other professionals.
- Employed barristers will be able to receive instructions from their employers but not from their employers' clients.
- Only non-practising barristers in employment will be able to provide legal services to their employers' clients but only if they do not hold themselves out as practising barristers.

This looks like little more than a device. The Bar will not be faced with disbarring those employed barristers who give advice directly to their employers' clients if they place themselves in the third category. In other words, provided they no longer regard themselves as barristers, it will not be necessary to disbar them.

It remains to be seen whether the Mummery Report will satisfy either the employed barristers concerned or the Government.

## UK NEWS

## Confidence about demand volumes lowest since 1982

By Peter Marsh, Economics Staff

CONFIDENCE among UK manufacturing companies about the volume of demand in the British economy is at its lowest level for eight years, a survey by the Confederation of British Industry (CBI) shows.

The CBI's audit of trends in manufacturing industry, published today, provides some of the strongest evidence yet of the depth of the slowdown in the UK economy.

Mr John Banham, director general of the CBI, said yesterday on BBC Radio's *The World This Week* that Mr John Major, the Chancellor, should cut interest rates soon to limit the damage inflicted on manufacturing businesses. "We have to ensure that the recession is not any deeper than it needs to be," he said.

In the past few weeks, British industry has shown increasing signs of ebbing confidence and lower profits. At the same time, unemployment is climbing.

Mr David Wigglesworth, chairman of the CBI's eco-

nomics situation committee, said he recognised the need for high interest rates to squeeze demand and reduce Britain's inflation rate, which is running at 10.6 per cent a year. "But this survey confirms that demand is weakening rapidly and that high interest rates have done their job," he said.

The CBI survey - which shows that nearly one in three manufacturers expect overall output levels to fall over the next four months - comes at the start of what could be a difficult week for the Government. Today it is expected to announce a current-account deficit for August of about £1.5bn, which would put Britain on course for an overall current-account deficit for 1990-91 of nearly £20bn.

The pound may also come under new pressure on foreign exchange markets. Last week, speculation about the timing of the UK's entry into the exchange rate mechanism of the European Monetary System, combined with nervous-

ness about the UK economy, prompted a slide in sterling.

Today's CBI survey is based on information collected over the past month from 1,406 companies. Together these account for about half the jobs in the UK manufacturing sector.

Thirty per cent of the companies said their output would fall in the next four months, compared with the 20 per cent that thought it would increase. The negative balance of 10 per cent compares with a negative balance of 3 per cent in the CBI's August survey and with small positive balances for most of this year and 1989.

The last time UK industrialists had such a gloomy view of future demand levels, as measured by CBI surveys, was in December 1982.

The survey also reports deteriorating order books and reduced expectations of price increases. Forty nine per cent of companies reported total order books to be below normal, with only 10 per cent saying they were above normal.

## Pay rises of over 10% seen likely in autumn

By John Gapper, Labour Editor

PRESSURE from workers and unions for pay increases of 10 per cent or more will rise this autumn as the economy hovers between stagnation and recession, according to a study of pay bargaining prospects published yesterday.

The pay research group Incomes Data Services suggests that deals already agreed above 10 per cent for this year and the early half of 1991 will go some way towards undermining an "unstated 10 per cent barrier" this summer.

IDS says that downward and upward pressures on pay may start to exist alongside each other, with settlements rising at the same time as unemployment increases and with a return to short-time working.

The car industry pay round in the next two months is likely to reinforce a 10 per cent target, says warnings from Mr Michael Howard, Employment Secretary, and other min-

isters that rises should be offset by productivity increases.

IDS says there has been a stronger consistency of pay rises above the "going range" in various industrial sectors than had been expected. The labour market has left companies little alternative but to match others.

It says comparability pressures are likely to be especially severe in the car industry, construction and in retail. Deals in the sectors will fall between now and next spring against a background of high inflation.

Inflation at the end of the private sector has already triggered a rise of 12.4 per cent at Vauxhall and is likely to give 32,000 Ford workers rises of about 12.5 per cent.

**ITALICS: Pay Prospects 1990-91; IDS Report 577; IDS, 193 St John Street, London EC1M 4LS. By subscription. £195. Line PC018701. From Story W115611. Job 422.**

## Construction union plans job agency

By Diane Summers, Labour Staff

PLANS FOR a nationwide construction employment agency intended to lift training standards, overhaul pay structures and generate £1m-a-year for the building union Ucat, have been approved in principle by the union's executive.

A document detailing the proposals argues that revenue from the agency would enable the union to resist merger. At the same time, £2m-a-year after three years would be made available from the project to continue the work of the private-run training group, the Builders Training Association.

BTA currently relies on diminishing government funding and grants from the Construction Industry Training Board. The future of CITB itself is uncertain, and BTA, therefore, is seeking alternative sources of cash to fund its activities.

## Illegal wage payments widespread, says report

By Lisa Wood, Labour Staff

ILLEGAL underpayment of wages is widespread in the UK, according to a report published jointly today by the Low Pay Unit and the National Union of Civil and Public Servants.

The report says that 30 per cent of employers visited last year by wages inspectors - who police wages councils which set minimum pay rates for about 2.5m workers - were underpaying workers. Some employees were being paid as little as £1-an-hour.

It also cites cuts in the number of wages inspectors as making it more difficult for them to use their wide range of powers to protect wages. Since 1979 the inspectorate has been cut by 60 per cent - a loss of 186 inspectors.

The Government considered abolishing wages councils, a plan which was shelved earlier this year.

The report said the Government had now set about reducing the wages councils ineffective by cutting the number of inspectors.

Visits by the wages inspectorate revealed "widespread flouting" of the law, said the report, including:

- Forty six per cent of companies failed to post up wages council notices.
- More than one third of companies visited were failing to keep adequate records of hours worked by staff.
- Mr Chris Pond, director of the Low Pay Unit, said that prosecution offenders was being hampered by a lack of resources at the inspectorate coupled with a lack of support from the Department of Employment, which has responsibility for the inspectorate.

Last year of the 5,526 companies caught illegally underpaying only eight were prosecuted.

The report recommends several areas for immediate action including a public information campaign on wages councils and more wages councils.

**Crime Without Punishment from Low Pay Unit, 9 Upper Berkeley Street, London W1.**

## CONSTRUCTION CONTRACTS

## Holiday resort in China

HOPEWELL COSTAIN, 50 per cent owned by Costain Group, has signed a management contract to build for Wealth Earth Development, an international holiday resort in the Zhuhai special economic zone of the People's Republic of China.

The resort, valued at HK\$1bn (£87.6m), will be located to the east of Zhuhai along the coast of Sha King and Tong Ka. Construction of this 437,000 sq metre project

will begin this month and will progress in two stages with recreational facilities being completed by June 1991 and the remainder to be completed by June 1992.

Developed on the basis of a time-share operation, the resort will have 620 detached bungalows, 326 semi-detached houses and several low rise hotels providing 1,412 rooms. Recreational facilities will include a full range of sports

activities, a waterworld and a yacht club. Adjacent to the resort is an international golf course, amusement park and beach.

"Sung City" will be a feature inside the resort with restaurants and bars constructed in the style of the Sung dynasty. Historically, Zhuhai was famous as a garden city and the resort will be designed as a garden blending traditional and modern styles.

## Sterling Hotel development in Derby

L & M Project Management (part of London & Metropolitan) has appointed WILLETTS as main contractors for BAA's new Sterling Hotel at Market Place, in the centre of Derby. The construction value of the contract will be £17.3m.

It will be the first Sterling Hotel to be built in the UK at a non-airport location by BAA Hotels.

The 255 bedroom hotel, on seven floors, will have a gross floor area of 14,900 sq metres (about 160,000 sq ft). A 70 seat

restaurant, 120 seat brasserie and two bars will be provided, together with a large function room and seven smaller meeting rooms. A conference/business centre will offer residents and guests extensive secretarial and business support services.

A special feature will be a 600 sq metre leisure and health club facility, on two floors, which will include a swimming pool, jacuzzi, gymnasium, sauna and steam room. Externally, the hotel will be constructed in traditional style, with pitched roofs, and will be clad in red brickwork.

L & M Project Management was appointed to manage the contract on behalf of BAA Hotels in June 1989. Since then LMPM's team of designers has worked up a detailed specification for the development, and has been actively involved at every stage of the tender process. Willetts will start on site within a few weeks, and the hotel will open in summer 1992.

## Newcastle Business Park office project

SHEPHERD CONSTRUCTION has secured an £8.8m contract to build the AA Insurance Services office development on Newcastle Business Park, Newcastle upon Tyne.

Shepherd's north east office is carrying out the project for developer Dyrart Development (Tyne and Wear). When

the project is completed, the contract will provide 114,000 net lettable sq ft of high quality offices for the Automobile Association's insurance services operations, together with extensive car parking.

The design incorporates steel frame construction with facing brickwork and simulated slate

pitched roofs. Air-conditioning and raised computer flooring are also included in the high grade specifications. Completion is scheduled for July 1991.

Newcastle Business Park is a joint venture between Dyrart Development (Tyne & Wear) and Tyne & Wear Development Corporation.

## £17m orders for Wates Construction

WATES CONSTRUCTION (LONDON) has secured orders valued in excess of £17m. In the City, at 64-66 Cheapside and No. 1 Crown Court EC2, Wates has secured a £10m plus contract from Sun Alliance Group Properties to construct

an office development on eight floors, retaining the retained Cheapside facade.

Grosvenor Square Properties has awarded the company a contract, valued at £3m, to construct a seven-storey building containing offices, retail units

and residential accommodation at 406-408 Strand, London WC2.

At 1-5 Barge House Street SE1, Wates has started work on a scheme to provide six three and four-storey office units worth around £4m for Aquis Estates.

## Office buildings in Milton Keynes

Building contracts worth around £12m were awarded to six of the WILLMOTT DIXON companies last month.

The largest, valued at around £5m, has been awarded to Willmott Dixon Design & Build for the design and construction of two office buildings in Milton Keynes. The contract is being carried out for the Linford Wood Develop-

ments company. Willmott Dixon Housing has started work on a £2.2m development of houses and flats, for Notting Hill Commercial Properties, in Hendon.

A £2m contract for a further 19 office units at Chiltern Commerce Centre in Chesham has been awarded to Willmott Dixon Chilterns by Shotmilt. Willmott Dixon Midlands has

been awarded a £1.8m contract to build a meat production unit for Meadow Farm (UK) at Osmaston Park industrial estate, Derby.

Another £1.8m contract, has been awarded to Willmott Dixon London. It involves a major refurbishment of two floors of Empire House, in St Martins-Le-Grand, EC1 for St Martins Property Investment.

## IN BRIEF

TAYLOR WOODROW DESIGN BUILD has been awarded a £18m contract by Heathrow Airport to undertake a major extension to terminal four. This will house 20 new British Airways check-in desks as well as additional office space. Work will range from services overruns and foundations to internal finishing. Completion is scheduled for next summer.

Office and industrial developments are included in £18.5m worth of contracts awarded to SDC CONSTRUCTION GROUP, Bedford. Ironcliffe Estates is extending and refurbishing its business park at Wimbledon (£4.1m) and Austin Rover is spending £2.3m to provide a parts receiving centre at Longbridge. Orders include offices for Mid Beds District Council (£2.1m) and the Trancherwood Group at Tottenham (£1m), a mix of office and industrial for Prostar UK at Hitchin (£2.1m) and A.J. Mucklow at Bedford (£1.8m) and a warehouse for Weatlab at Kettering (£1.4m).

HIGGS AND HILL MIDLANDS has a management contract worth £4.5m for a six-storey hotel in Birmingham for Arcade (Midlands) Properties, part of the Pullman International Hotels Group. The project will provide 151 bedrooms together with shop units.

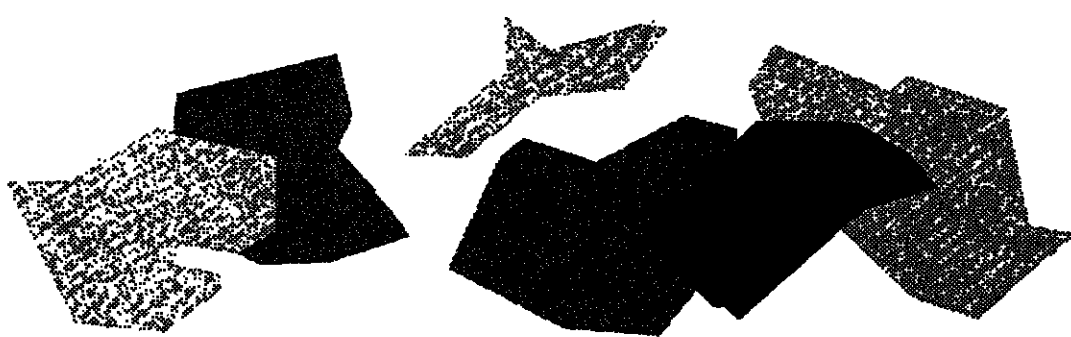
WARINGS CONTRACTORS, Portsmouth, has started work on three contracts totalling £7m.

Pharmaceutical manufacturer John Wyeth is replacing a facility at Havant with a 24,000 sq ft laboratory to provide quality control and assurance facilities. Completion is scheduled for May 1991.

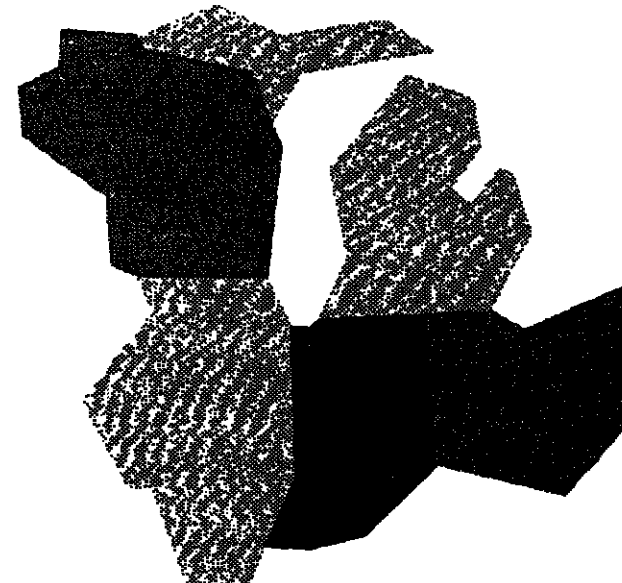
In Guildford, the company has a contract, worth £2.9m, for 10 light industrial units totalling 80,000 sq ft for Energyhold.

R MANSELL has been awarded a £3.2m contract by Vestey Estates for construction of an office block in St John's Lane, London EC1.

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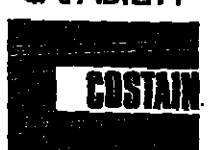


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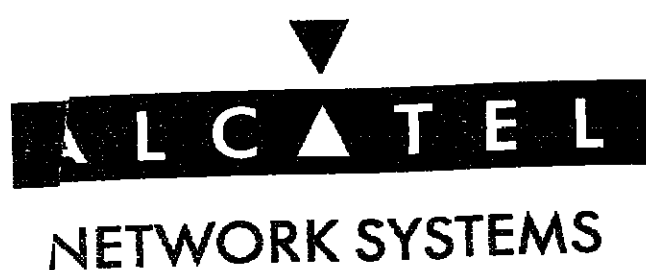
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## UK NEWS

# Serious Fraud Office head refutes criticism of courts

By Robert Rice, Legal Correspondent

THE GUINNESS trial has demonstrated that the UK now has an effective system for tackling serious fraud, the new director of the Serious Fraud Office claimed yesterday.

Speaking at the Bar Conference in London, Mrs Barbara Mills QC, who was a member of the Guinness prosecution team before her appointment as SFO director, said the criticism levelled at the legal system by the Roskill fraud trials committee had been answered.

She reported that in the 2 1/2 years since the SFO was set up it had prosecuted 39 cases involving 81 defendants. Fifty-nine had been convicted.

The sums involved in these trials totalled £200m. The total "sums at risk" in cases under investigation or awaiting trial was £1.16bn.

"It can no longer be said that the legal system cannot cope with prosecuting serious frauds effectively and efficiently," she said.

Much of the SFO's work was highly international, she added. Continued success in tackling serious fraud was dependent on international co-operation and reciprocity. The UK had given new powers to the Trade and Industry Secretary under the 1989 Companies Act to help overseas regulatory authorities in their investigations.

"The Criminal Justice (Inter-



Barbara Mills: SFO's battle against fraud is vital

national Co-operation) Act 1990, which comes into force in December, will also give the SFO far-reaching powers to assist other countries, even where criminal proceedings have not been started, she said.

The SFO will be able to ask for a court to be nominated to gather evidence requested by a foreign state. It will also be able to transfer prisoners abroad to give evidence, and to

search and seize material at the request of another country. The fight against fraud was vital as fraudulent conduct struck at the root of commercial practice and at the trust which people put in the integrity of markets and financial institutions, Mrs Mills said.

She hoped the effective prosecution of fraud by the SFO would be a powerful deterrent to further white-collar crime.

## Bar chief urges greater access to justice

By Robert Rice

THE Government's reforms of the legal profession had been a great diversion from the key issue of improving access to justice, Mr Peter Cresswell, chairman of the Bar, said yesterday.

Improved access to justice would come only by extending legal aid to cover more people, he said.

At the moment there was a large section of the community which could not afford to go to the law because it fell outside the eligibility limits for legal aid.

Lord Mackay, the Lord Chancellor, was genuinely concerned about access to justice, Mr Cresswell said. The prob-

lem was that the Treasury wanted to put a cap on legal aid.

Mr Cresswell was responding to hints by Lord Mackay at the Bar Conference that the Government might have to consider a cut in the legal aid budget unless the profession took steps to curb legal aid costs.

The Lord Chancellor said that legal aid spending could not continue to rise at its present rate. Gross expenditure on legal aid had doubled over the last five years to £715m, an increase which outstripped inflation and was proportionately greater than the increase in public expenditure on health and social security.

"Justice is priceless, but it must not be too pricey if it is to be accessible. To be accessible it must be affordable to the individual both as a taxpayer and litigant," Lord Mackay said.

"Resources are finite; and legal aid is not and cannot be an unconditional blank cheque from the taxpayer."

The Lord Chancellor made it clear he was not saying there would be cuts nor was he promising there would be no cuts. However, huge additional sums for legal aid were unlikely in the future. Justice had to be achieved within realistic parameters.

Legal Column, Page 14

## Spending by executives shows 21% increase

By David Churchill, Leisure Industries Correspondent

EXECUTIVE spending on hotels, restaurants and travel is running sharply ahead of last year in spite of cost-cutting pressures on corporate expenditure, according to figures released yesterday by American Express.

The company said that spending by its 200,000 corporate cardholders on hotels, restaurants and travel was up 21 per cent on last year.

"While consumer spending may be down, expense account business is booming," said Mr David Cornthwaite, a vice-president of American Express in London, yesterday.

The American Express figures show that the hotel and travel sectors are particularly buoyant for the sort of spending normally associated with corporate cardholders.

British companies are estimated to spend more than £20bn a year on business travel and entertainment.

The business travel figure from American Express will help investor confidence in hotels and related travel stocks. There had been fear that the onset of recession in the UK would dampen business travel expenditure.

"There is no doubt that increasing costs and falling consumer spending are hitting businesses hard but the British business executive does not seem totally disheartened and has realistic expectations of what can be achieved," said Mr Cornthwaite.

American Express also published details yesterday of its latest survey of business confidence among companies in the service industries. The survey of over 800 companies in the travel, hotel, catering and retail sectors, was carried out in the week after the Iraqi invasion of Kuwait.

In the April to June quarter only one in every five reported turnover increases ahead of inflation. But 40 per cent of those surveyed were expecting a pick-up in business before the end of the year.

## SNP to lure votes from Labour

By James Buxton, Scottish Correspondent

THE SCOTTISH National Party will step up its campaign to lure voters away from Labour in its heartland in the central belt of Scotland after the decisive victory at the weekend of Mr Alex Salmond in the election for the leadership of the SNP.

Mr Salmond, MP for Banff and Buchan, told the party's conference in Perth that he was a left-wing socialist.

He said: "Labour may win the yuppie votes in the south

of England; we are going to win the hearts and minds of the Scottish people."

Mr Salmond, who is 35, defeated Mrs Margaret Ewing, the MP for Moray, his rival for the party's national convention, by 486 votes to 186.

Mr Salmond's victory over Mrs Ewing is a reversal for many of the consensus-minded senior members of the SNP, who were conscious of the fact that much of the party's sup-

port is in north-east Scotland, where Labour is generally weak.

It was also a setback for Mr Jim Sillars, MP for Glasgow Govan, whose associates, also on the left wing, were defeated in the election for party posts.

The leadership election was caused by Mr Gordon Wilson's retirement from the post after 11 years.

Mr Salmond was an economist with The Royal Bank of

Scotland before becoming an MP.

The SNP, which has 22 per cent support in the opinion polls, needs to win the votes of Labour supporters in the central belt of Scotland if it is to gain more parliamentary seats than the four it already holds.

The first big test of Mr Salmond's leadership will come at the forthcoming by-election in Falkirk North, caused by the death this month of the Labour MP, Mr Alan Adams.

## Green membership divided on party's long-term objectives

By Ralph Atkins

THE GREEN Party conference in Wolverhampton yesterday unanimously passed a motion saying a war in the Gulf would be "brutal, bloody and counter-productive."

It postponed taking a decision on whether western troops should be withdrawn, pending a full emergency debate tomorrow.

While an opinion poll in the Observer put support for the Greens at just 3 per cent, party members remained divided on streamlining the organisation.

The "Green 2000" lobby, which says the party must aim for government by early in the 21st century, faces a tough challenge to persuade members away from concentrating on local campaigns for fundamental and revolutionary changes in society.

"The job of a political party

is to present a vision," said Mr Penny Kemp, a prominent Green Party member and opponent of Green 2000.

Green 2000 shies away from a single leader preferring a "leadership team" to work within the political system.

Three of the most prominent speakers - Sara Parkin, David Locke and Jean Lambert - have all backed the Green 2000 lobby which describes "the unbridled right to do our own thing, regardless of the political consequences," as a "self-indulgence we cannot afford."

Opening the Gulf debate, Mr Mullen Baker, party speaker on defence, said the Greens opposed Saddam Hussein's invasion of Iraq but would never support a war in the region.

He said: "Patriotism for us means reverence for all life and for the earth, and when our country and Government can say the same, then we will salute."

● The party underlined its commitment to decentralisation by voting overwhelmingly to set up a separate Green party in Scotland.

## Hope for Exchange Travel franchisees

By David Churchill, Leisure Industries Correspondent

THE 64 Exchange Travel franchisees which followed the collapse last week of the Exchange Travel group were yesterday offered the opportunity to transfer their travel agencies to CWS Travel, part of the Co-operative Wholesale Society.

Exchange Travel was put in administrative receivership last week and was forced to cease trading when the Association of British Travel Agents withdrew its membership. This

prevented it from selling holiday offers by the leading tour operators.

The joint administrators from the accountancy firm Arthur Andersen were forced to shut the 65 company-owned shops, making 300 staff redundant, and recommended that the franchisees did the same.

If the franchisees accept the deal made with CWS Travel, they would resume trading shortly under the Co-op Travelcare banner.

Mr Alan Katz, one of the

administrators, said yesterday the agreement with CWS Travel and other negotiations which are still under way "did mean that creditors will receive substantially more than on liquidation - previously estimated at 25 per cent."

Head talks were still going on to find a buyer for the company-owned travel shops and other value operations.

"It is disappointing that one major group withdrew after negotiations were at a very advanced stage."

## CGE seeks expansion in Britain

By David Thomas, Resources Editor

COMPAGNIE Générale des Eaux (CGE), the French industrial group, has set up a company to spearhead its energy interests in the UK. Energy and Technical Services Group (ETS), will co-ordinate and seek to expand CGE's energy businesses in the UK.

The existing interests are:

- Associated Heat Services, which provides contract energy management services for industrial and commercial customers;

- Parkersell, which provides lighting management and maintenance services;
- Associated Electricity, 25 per cent owned by Electricité de France (EdF), which manages EdF's exports of nuclear electricity to Britain;

- Associated Gas Supplies, 45 per cent owned by Elf Aquitaine, which supplies gas to the industrial gas market.

Lord Ezra, former chief of the National Coal Board who will be chairman of ETS, said the aim was to co-ordinate "the activities of these companies and to expand them by acquisition and organically."

Lord Ezra foresees increasing opportunities for energy services and management companies in the newly competitive UK energy market.

ETS, which will be wholly owned by CGE, would have an initial turnover of \$30m-£30m, excluding the value of the EdF contract, Lord Ezra said.

Mr David Waterstone, former chief executive of the WDA, is to be chief executive of ETS.

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## FINANCIAL TIMES CONFERENCES

### POLLUTION MANAGEMENT

Birmingham - 2 & 3 October

This two-day conference brings together a distinguished panel of industry leaders who will share their views on coping with the demands of pollution control. The panel will highlight how companies from different sectors are changing their practices. A key feature of the programme will be a review of the technical solutions and opportunities for cleaning up waste. Speakers include: David Heathcoat-Amory MP, Parliamentary Under-Secretary of State, Department of the Environment; Mr Thomas Orley, Vice President of Environmental Affairs at Dow Europe; Dr William L. Wilkinson CBE, Deputy Chief Executive, British Nuclear Fuels; Dr Hans Kramer, Chairman of the Executive Board, STEAG AG; Basil R. Butler, Managing Director, The British Petroleum Company and Dr Ian Bowman CBE, Chief Executive, National Rivers Authority.

### BUSINESS WITH SPAIN

Madrid - 8 & 20 November

The Financial Times fifth Business with Spain forum to be arranged in association with Expansion will focus on developing strategies for international competitiveness. A most distinguished panel of speakers will review the economic climate in Spain, the changes taking place in Eastern Europe, and analyse the impact of the slowing down of the Spanish economy. Challenges for industry in the run up to the introduction of the Single Market in Europe will be reviewed as well as the needs to be done to develop internationally competitive enterprises and finance investment for growth.

Senior ministers who have agreed in principle to address these questions and others include: D. Carlos Solchaga Catalán, Minister of Finance and Economy, D. Claudio Aranzadi Marín, Minister of Industry and Energy and D. José Borrell Feltes, Secretary of State for Finance. Leading figures from the international business community include Dr Francisco José Pereira Pinto Balsemão, Chairman of Controljornal S.p.A., José María Vázquez Manterola, Chairman of Confesbank, Arturo Romani Biescas, Managing Director, Industrial Divisió de Banesto SA and Mr Timothy Davis, Senior Vice President & Country Manager at Chase Manhattan Bank NA.

### WORLD TELECOMMUNICATIONS

London - 3 & 4 December

This major FT event will bring together a most distinguished panel of speakers to look at the gathering pace of deregulation in the world's telecoms markets and the new opportunities for expansion. Dr Oscar Marmel, Academician Professor Yuri Guly, Mr Hideo Sutsugu, Mr Gyula Partos and Mr Kenneth Dale will be among the speakers who will be leading the debate. A major feature of the conference will be a forum review how international telecommunications markets can be made more competitive with contributions from Ambassador Blyth P. Holmes, Professor Henry Ergas, Mr Mark Fowler and David Tudge.

### REVIEW OF TELECOMMUNICATIONS POLICY IN THE UK

London - 5 December

Six years after privatisation, its state-owned telephone company, British is gearing up for a far-reaching review of telecommunications policy. This FT conference is timed in the midst of the duopoly law, which begins in November. Mr Douglas Hogg QC, Minister of State for Industry and Enterprise will give the opening address to the meeting. Other speakers include Mr Gdn Owen, Mr Malcolm Argent, CBE and Mr Stephen E. Andri.

All enquiries should be addressed to:  
Financial Times Conference Organisation,  
126 Jermyn St, London SW1Y 4JL  
Tel: 071-925 2322 (hour answering service)  
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## LEGAL NOTICES

### ROCKWOOD DISTRIBUTION SERVICES LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 482 of the Insolvency Act 1986, that a meeting of the creditors of the above named company will be held at National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, B36 0EL on 2 October 1990 at 10.30 am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting will be held at 11.15 am for the purpose of considering the report and of electing a committee to exercise the functions conferred on creditors' committee by or under the Act.

Creditors are only entitled to vote if:

- they have delivered to us at the address shown above, no later than noon on 1 October 1990, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
- there has been lodged with us any proxy which the creditor intends to use on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged with the address mentioned, photocopies (including faxed copies) are not acceptable.

Dated 14 September 1990

Michael A. Jordan and John F. Powell  
Joint Administrative Receivers

### IN THE MATTER OF "MERAS" MIDDLE EAST

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### AND IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

NOTICE is hereby given that the creditors of the above named company which is being voluntarily wound up are required on or before the 24th day of October 1990 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Mr A. J. Hall, Receiver of the said company, and if so required by notice in writing the said creditors are permitted to or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before the 24th day of September 1990.

Dated 14 September 1990

M. A. Jordan & J. F. Powell

Joint Administrative Receivers

COBK GULLY

Shelley House

3 Noble Street, London EC2V 7DQ

### ROCKWOOD SECURE

### DISTRIBUTION LIMITED

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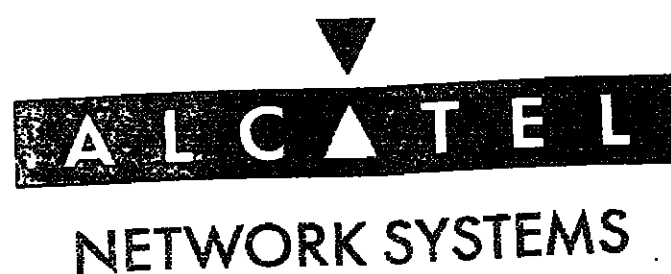
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## UK NEWS

## Team to consider move into helicopter industry by BAe

By Paul Betts, Air Correspondent, and David White, Defence Correspondent

BRITISH Aerospace is setting up a confidential study group to examine possible entry into the helicopter business.

Mr Dick Evans, BAe's chief executive, said it was considering opportunities for building up a presence in the helicopter industry, in which Westland is the only British manufacturer.

The study group will be headed by Mr John Weston, managing director of BAe's military aircraft division.

BAe is already bidding, with the General Electric Company of the UK, for a Ministry of Defence contract to take over all responsibility for the troubled EH101 naval and transport helicopter project.

The EH101 aircraft is being developed jointly by Westland and the Italian company Agusta.

Westland is making a counter-bid for the overall contract, which includes integration of electronics and weapon systems, in a team with IBM, the US computer group.

BAe is also prime contractor for UK arms sales to Saudi Arabia, which are expected to include up to 88 Black Hawk tactical helicopters made by Westland under license from its minority shareholder, Sikorsky of the US.

BAe's latest move is expected to add further questions about the future of Westland, which is struggling through a temporary dearth of new helicopter orders.

Helicopters were left out of the original consolidation of the UK airframe industry around what became BAe in the 1960s and 1970s. Mr Evans believes that was a mistake.

BAe is now alone among the leading western civil aerospace manufacturers without a helicopter interest.

By contrast, helicopters have become the most profitable division at the French state-owned Aerospatiale, which is now merging its helicopter activities with those of West Germany's Deutsche Aerospace.

Both Aerospatiale and Deutsche Aerospace are manoeuvring to try to lure Westland into the new grouping, as well as Agusta.

Abortive plans for a European takeover of Westland provoked a UK Cabinet crisis in 1986. Sikorsky subsequently took a minority interest in Westland. It now holds less than 8 per cent and GKN, the British engineering group, holds almost 22 per cent.

Westland, which has sought to diversify into other aerospace fields, is seen to be vulnerable in comparison with its competitors. All its US and European rivals are considered to be better protected against cyclical problems because they either belong to a leading industrial group or are state-controlled.

There has been speculation that BAe might be interested in bidding for Westland. But BAe has indicated that it might equally be able to develop its own "in-house" expertise in helicopters.

BAe's interest is based on the importance it attaches to helicopter technology in the overall development of the aerospace sector, and expectation of a revival, especially in the military helicopter market which dominates the industry.

However, some top BAe executives believe it may be too late for the company to enter the field in competition with the four US manufacturers - Sikorsky, Bell, McDonnell Douglas and Boeing.

There is general consensus in the industry that there are already too many Western manufacturers.

"With four in Europe and four in the US, it's already more than enough, and we're going to have to lose a few," one US industry executive commented during the recent Farnborough air show.

IT IS a moot point whether the Labour Party is doing any fighting to defend the Merseyside parliamentary seat of Knowsley South, which goes to the polls on Thursday in the first of a series of by-elections this autumn.

The urbane, multilingual Mr Eddie O'Hara is, quite reasonably, expecting to win easily. So why break into an unseemly, image-rumpling sweat in the process of doing so?

The contest is such a mismatch that everyone involved seems to be merely going through the motions. Even the voters seem indifferent: it is hard to find a single front window displaying a poster, so a casual visitor would not know that there was an election on at all.

One reason that the seat is impregnable is the work done by Mr Sean Hughes, the Labour MP whose death from cancer at the age of 44 caused the by-election. In 1987 he increased an already strong majority to 20,846, winning 64.5 per cent of the franchise.

Mr Hughes was formerly a history teacher who used to delight in sending Merseyside's neo-Marxist left-wingers into paroxysms of rage by telling them that there was nothing inevitable about history.

Another reason Knowsley South is impregnable is that there was no left-wing Labour caucus there to bully Mr Hughes with the threat of deselection.

The constituency, most of which was then known as Huyton, was held for 20 years by Mr Harold Wilson, who had able Labour moderates to guard his back while he was away being Prime Minister.

When Militant emerged in Liverpool as Labour's national electoral albatross, and when the Merseyside party degenerated into political sectarianism, Knowsley South was an oasis of moderation. So in 1986, when Mr Neil Kinnock and his newly-moderate national executive committee decided to thwart Merseyside's left-wing activists by imposing a politically safe candidate in a by-election in neighbouring Knowsley North, they found Mr George Howarth from Knowsley South.

On Friday, Mr Kinnock admitted that the contrast between the two by-elections itself symbolised how far the Labour Party has come in the last four years.

Then, Mr Robert Kilroy-Silk, Knowsley North's sitting MP, had left for a career in television ahead of impending deselection by left-wingers who wanted one of their own in the seat. The by-election - and Mr Howarth's feat in winning it with a small number of imported helpers - was a turning point in Mr Kinnock's campaign to marginalise Labour's



Mr Gerald Kaufman (left) with the Labour candidate, Mr Eddie O'Hara



Les Byrom, the Tory, backed on the platform by Mr Kenneth Baker (left)

## Labour in sight of victory without a fight

Ian Hamilton Fazey profiles a safe Merseyside seat going to the polls on Thursday

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left wing.

Mr Peter Kilfoyle - the official in charge of Labour's local purge of Militant and its fellow-travellers - watched with vigilant satisfaction on Friday when Mr Kinnock and Mr O'Hara toured Huyton's sixth-form college.

"Four years ago there would have been a mob of left-wingers demonstrating outside the gates as Neil arrived. The heart has gone out of them now. Their organisation is folding," he said.

Indeed, Mr O'Hara would not even have been nominated in most Merseyside constituencies just four years ago, in spite of his working-class credentials.

He may have been born in Bootle in 1937, the son of a horse-keeper in Liverpool docks, but he later read classics at Magdalen College, Oxford. He is now principal lecturer in education at Liverpool Polytechnic.

He has been on Knowsley council for 15 years and has been chairman of its education committee. His two main opponents are also local councillors, but not in Knowsley, where Labour has all but three of the 66 seats.

Mrs Cathy Hancox, standing as a Liberal Democrat Against the Poll Tax, sits in Liverpool, while Mr Les Byrom, the Conservative, represents one of the comfortable upper middle-class suburbs of Southport on Sefton

council.

If there is an issue in Knowsley South, it is the question of who will come in second place. In the general election, it was the Conservatives, with 21.6 per cent of the vote. Mrs Hancox says that at the time as total no-hopers the SDP-Alliance put up a "paper" candidate only, whose resources ran to only one election leaflet.

Mr Paddy Ashdown, the Liberal Democrat leader, defended her "against the poll tax" addition to the party name. He did not accept that this might lead to confusion over whether she or Mr Ian Smith, a maverick Liberal candidate, was the standard-bearer for his party.

Compared with other by-elections, the Liberal Democrat campaign has been muted and barely visible. The party has been caught on the hop by the by-election which clashed with its conference last week, severely inhibiting canvassing. Even Mrs Hancox went to the conference.

By contrast, Mr Les Byrom, the Conservative, has been out on the doorstep every day. Ominously for his chances, however, people who last Wednesday said they would vote for him had not, by Friday, put up the posters he gave them.

Mr Byrom, a cheerful character surveyor even wears a Gannex topcoat, but since it is an olive green zip-up affair and looks nothing like the coats

Harold Wilson made famous, it is doubtful whether this will in fact do him much good.

He might have had a chance in 1952, when the constituency was a collection of rural villages such as Huyton-with-Roby, Whiston and Halewood. But that was the year when the then Earl of Derby sold nearly 2,000 acres of land to Liverpool City Council for overspill housing.

The result is that there is little bucolic bliss in Knowsley South today, in spite of there still being many acres of working farmland.

Halewood is dominated by the Ford car plant, but most people work outside the constituency. Unemployment is twice the national average, with the male jobless rate about 17 per cent and two-thirds of jobless people under 35.

Mr O'Hara should be making a triumphal appearance at the Labour Party conference next month.

Candidates: Leslie Byrom (C), Raymond Georgeson (Green), Catherine Hancox (Lib Dem Against the Poll Tax), Edward O'Hara (Lab), Ian Smith (Lib), Lord David Sutcliffe (Monster Raving Loony 10 Downing Street), Lady Cash Lash LaRue Whiplash (Corrective Party).

1987 RESULT: S. Hughes (Lab) 31,378, A. Ball (C) 11,032, Mrs R. Wharmouth (SDP/All) 6,760. Lab majority: 20,846 (62.8 per cent). Poll 74.1 per cent.

## Survey discloses shortage of computer specialists

By Alan Cane

UK COMPANIES are currently short of 19,300 professional computer specialists, about 11 per cent of the total of 175,000 computer experts working for British companies, according to the latest survey by the National Computing Centre (NCC), the organisation charged with developing Britain's commercial computing potential.

The survey covers only computer specialists working for users of computers; it does not take into account specialists working for software houses or computer manufacturers.

A shortage of experienced programmers and systems ana-

lysts has often been blamed for slow progress in developing advanced computer systems by UK companies.

The NCC survey shows that the greatest shortage is of programmers, software specialists who write computer code.

Analyst programmers, who size up the information needs of a business and design an appropriate computer system, are almost as scarce.

The NCC working group, chaired by Mr Fraser Mitchell, concludes employers will have to widen their target for potential recruits and consider older people, women returning to a career and non-graduates.

## Study sees good future for independents

By John Thornhill

INDEPENDENT operators in the confectionery, tobacco and newsagent (CTN) market are likely to continue to dominate the sector in spite of the encroaching power of the multiple chains, according to a new report by Verdict, the retail consultants.

The report suggests that the independent operators, which account for 80 per cent of the £11bn market, have the advantage of close relationships with their customers and dedicated owner/managers.

Verdict on CTNs. Verdict Research, 112 High Holborn, London. WC1V 6JS. Price £495

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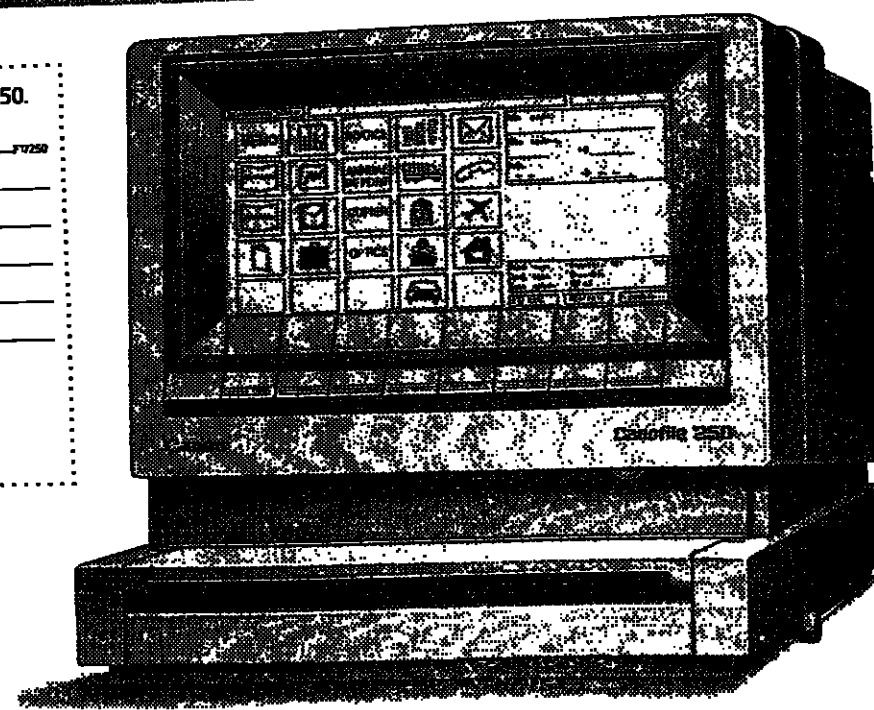
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## UK NEWS

# Labour pledge to drop Tory nature group appointees

By John Mason

UNSUITABLE political appointees to the governing bodies of the Nature Conservancy Council and other environmental groups would be removed by a future Labour government, Mr Bryan Gould, the shadow Environment Secretary, said yesterday.

In a speech to the Royal Society for the Protection of Birds, he said many recent appointments to such bodies had been made on the basis of loyalty to the Conservative Government.

Mr Gould said the membership of these organisations would be reviewed and unsuitable people would be replaced by others with adequate experience in voluntary conservation groups.

"I have no wish to denigrate the important contributions given by many of the 'great and good' who have been appointed in the past, but I do believe that there needs to be a much greater consumer input into these kind of bodies. It shouldn't really matter what colour your welly are," he said.

Mr Gould said a future Labour Government would have to address problems left by the break-up of the NCC

into three separate organisations for England, Scotland and Wales.

A national organisation would have to be established to build up a science base and form policy. It would judge individual decisions from a national perspective and play an international role in identifying and countering ecological threats.

Mr Gould also reaffirmed Labour's commitment to an integrated approach to environmental policy.

All areas of government policy had to be "greened," he said, with the departments of energy, transport, trade and industry, and agriculture in the environmental front line.

Clean technologies and energy efficiency had to be promoted and a more precautionary principle adopted with manufacturers, which would have to prove their products were harmless before starting production.

An independent Environmental Protection Agency would be set up and support given for restructuring agriculture to encourage less intensive farming that was less dependent on the use of chemical fertilisers.

## Charge-capping 'will lead to social service cuts'

By John Mason

CHARGE-CAPPING of local authorities will lead to cuts in social services, particularly those for the elderly and mentally handicapped, Mr Robin Cook, the shadow Health Secretary, said yesterday.

A Labour Party survey of 12 capped local authorities, which have finalised their revised spending plans, showed cuts in social services budgets of between £3,120,000 for Hammersmith and Fulham to £149,318 for St Helen's.

Mr Cook said services for the elderly were the most frequent casualty of the planned cuts, with closures of old peoples' homes, reduced recruitment

and training of home helps and increased charges for meals on wheels services.

Local authorities had also been forced to shelve plans to provide new services for the mentally ill, Mr Cook said.

In a letter to Mr Kenneth Clarke, the Health Secretary, Mr Cook said the cuts contradicted the aim of the Government's proposals to move away from institutional care in the health service and instead encourage local authorities to provide social services. "When ministers use local authorities as their whipping boy, it is the most vulnerable members of the community who get hit."



Summer in the city: experts are to monitor air quality following complaints of pollution

## ENVIRONMENT WHITE PAPER

### Proposals to 'civilise' traffic

By John Hunt, Environment Correspondent

MEASURES to "civilise" traffic and boost energy conservation will be included in the white paper on the environment to be issued tomorrow.

The white paper will propose better traffic management, priority for buses and improved parking.

A group of experts will be set up to monitor air quality in towns and cities following complaints during the hot summer of serious air pollution and smog resulting mainly from car exhaust fumes.

The Government claims that the programme in the 300-page document will set the environmental agenda until the turn of the century. But the white paper emphasises that the pledge to protect the future of the planet does not mean "trying to halt economic growth."

It contains no firm commitment to a carbon tax on fossil fuels such as coal and oil which contribute to global warming by emissions of carbon dioxide. Proposals from Professor David Pearce, adviser to Mr Chris Patten, the Environment Secretary, were watered down after opposition from the Treasury and Department of Energy.

But the white paper keeps the door open to such schemes. It says action will have to be taken in the long run to increase relative prices of energy and fuel through taxation and use of public transport to reduce dependence on private cars, but "green" organisations believe Mr Patten has lost out to Mr Cecil Parkinson, the Transport Secretary, in the argument over the need to control the ever increasing number of cars.

The white paper is expected to suggest that differential car taxes to encourage drivers to use smaller vehicles consuming less fuel should at least be discussed, but it contains no specific undertaking for their introduction.

Road pricing to reduce congestion in towns and cities has not been included.

On the international front there will be a commitment to help China and India reduce pollution, particularly carbon dioxide emissions, while they develop their economies.

There has been a battle over proposals that the Department of the Environment should issue annual reports on the effect of government activities on the environment.

But this aroused hostility in other Whitehall departments and it was agreed only to publish such reports occasionally.

The publication of the white paper is part of the political battle for the green vote as the party conference season gets into full swing.

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## Smith calls for talks on full EMS membership

By Philip Stephens, Political Editor

THE Labour Party yesterday called on the Government to begin immediate negotiations to take up full membership of the European Monetary System as part of a package of measures to head off an economic recession.

Mr John Smith, Labour's shadow Chancellor, said that sterling's participation in the EMS exchange rate mechanism could pave the way for lower interest rates. He called for an initial one-point reduction from the present 15 per cent.

Interviewed by Mr Brian Walden on London Weekend Television, Mr Smith also repeated Labour's call for credit controls as part of the strategy to bring down inflation. However, he ruled out direct controls on borrowers, calling instead for new constraints on banks and other lending institutions.

In a confident performance designed to reinforce Labour's claim to have a moderate and responsible approach, he said that Britain was already in the grip of a recession.

It now faced the problem of "stagflation," the coincidence of rising prices and static or falling output.

Mr Smith said Labour could not offer any easy solutions. Yet he suggested that the package of ERM entry, lower interest rates and credit controls, would provide the basis for recovery.

He stressed that over the medium term, a Labour government would pay greater attention to the supply side of the economy. Present inflation rates could be partly attributed to lack of investment in plant and machinery, and in education and training.

The controls might consist of asset reserve ratios, applied to banks in many European countries, and possibly re-introduction of special deposits, applied in the 1970s.

In what appeared to mark a change in Labour policy, he rejected the idea of limits on the amount individuals or companies might borrow. In the past, Labour has suggested mortgage and credit card borrowing might be restricted.

## Machine tool makers could suffer sudden drop in new orders

By Charles Leadbeater, Industrial Editor

BRITISH machine tool makers may be facing a sudden and steep drop in new orders, suggesting that the country's manufacturing industry is cutting back on investment and that export growth may be faltering.

The volume of new orders from UK customers for British machine tools was 13.5 per cent down in the three months to July, compared with the same period last year, according to figures published by the Central Statistical Office.

The figures show that the volume of new export orders has fallen by 51 per cent in the last three months. Overall, the volume of new orders into the industry was 38 per cent down in the three months to July, compared with the corresponding period last year.

Although the machine tool industry accounts for only a small proportion of gross domestic product, orders for machine tools are one indicator of the investment intentions of manufacturing industry. The figures show that the volume of the British machine

tool industry's sales and orders is only just beginning to slow. The volume of sales in the UK during the three months to June was only 0.5 per cent down on the preceding three months and sales in July were 5.5 per cent higher than a year earlier.

In money terms the value of sales of British-made machine tools in the UK was 21.5 per cent higher in the three months to July compared with the same period in 1989.

The volume of exports was flat for most of the first half of the year, although it picked up in July with a 29.5 per cent increase in export sales. In money terms the value of export sales was 37.5 per cent higher in the three months to July, against the same period in 1989. Orders in hand from foreign customers were 12.5 per cent higher in July than the same month last year.

However, the 51 per cent cut in new orders in the three months to July suggests that the volume of export sales may fall quite sharply in the remainder of the year.

## Sales of heavy steel sections decline 20%

By Charles Leadbeater

SALES of heavy steel sections by stockholders, mainly to the construction industry, are 20 per cent down on last year, according to this month's survey of the industry by the National Association of Steel Stockholders.

However sales of other products such as stainless steel are holding up well.

Mr Ron Cash, the association's secretary said: "The climate has changed in the last few months. Most stockholders are in no doubt they are in the midst of a downturn."

The survey shows that steel prices have flattened with signs of only marginal softening, even in areas such as heavy sections which have been worst hit.

About 30 per cent of stockholders reported an increase in selling prices for heavy sections in September, with only 11 per cent reporting lower prices. The market for steel plates has shown some weakening, about 17 per cent of stockholders reported weaker prices, while 6 per cent reported price rises.

Steel producers hope that production will recover from its traditional August lull. Steel output declined 8.5 per

cent in August to a weekly average of 301,000 tonnes, marginally down on the same month last year when production averaged 304,000 tonnes a week.

Official figures published by British Steel and the British Independent Steel Producers Association show that steel production in the first eight months of the year averaged 348,000 tonnes, 4.5 per cent down on the same period last year.

However the real test for the industry will come in the run-up to Christmas. In 1989 steel output surged from a low of 283,000 tonnes a week in August to 380,000 tonnes in September and remained fairly high throughout the autumn before falling off in December.

It seems unlikely that this surge will recur this autumn after warnings that the economy is on the verge of recession.

Steel output has fallen from a peak of 18.9m tonnes in 1988, to 18.7m tonnes last year. On current trends it is set to fall to nearly 18m tonnes this year.

Steel stockholders, which act as intermediaries between steel producers and the final customer, report a mixed outlook.

## Income tax cuts attacked

WIDE differences in the effects on high and low earners of the Government's income tax cuts over the last 10 years were denounced yesterday by Mrs Margaret Beckett, the shadow Chief Secretary to the Treasury, writes John Mason.

Those earning more than £70,000 had benefited by an average £31,890 a year since 1979, compared with £170 a

year for those earning less than £5,000, she said.

Those earning between £50,000 and £70,000 benefited by an average £10,110 a year. Someone earning between £5,000 and £10,000 received tax cuts worth £340 a year.

Mrs Beckett said the cuts had been funded by North Sea oil revenues totalling £91bn and privatisation proceeds.

## CONTRACTS & TENDERS

### ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT No. 1 GARDEN AVENUE ENUGU, ANAMBRA STATE

#### INVITATION FOR BIDS (IFB)

DATE OF ISSUE: 29TH AUGUST, 1990  
LOAN NO.: 2733 UNI  
IFB NO.: MSADP-1A/VCB II - HEAVY PLANTS AND EQUIPMENT

THE GOVERNMENT OF FEDERAL REPUBLIC OF NIGERIA has received a loan from the INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT (THE WORLD BANK) in various currencies, equivalent to USD 162 million towards the cost of MULTI-STATE AGRICULTURAL DEVELOPMENT PROJECT (MSADP-1) and it is intended that part of the proceeds of this loan will be applied to eligible payments under the contract MSADP-1A/VCB II - SUPPLY OF HEAVY PLANTS AND EQUIPMENT required for the operations to the Anambra State Agricultural Development Project (ASADP), Enugu.

2. The ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT now invites sealed Bids from eligible Bidders for the supply of the following items underlisted:

LOT	ITEM	DESCRIPTION	QUANTITY
1	1	Crawler Tractor (Buildozar) 200 - 250 HP	1
	2	Air Compressor	1
2	1	Motor Grader 200 HP	2
	2	Front-End Wheel Loader 200 HP	1
	3	Vibratory Roller (Tyred) 200 HP	1
3	1	Heavy Duty Truck Tractor suitable for 80 MT Low Bed Trailer	1
	2	Low Bed Trailer 80 MT	1
4	1	Tipper Tractor 9000 Litres Water Bowser	5
	2		1

3. Interested eligible Bidders may obtain further information, inspect, and buy the Bidding Documents from:  
THE PROJECT MANAGER,  
ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT,  
NO. 1 GARDEN AVENUE,  
ENUGU, ANAMBRA STATE,  
NIGERIA.

4. A Complete set of Bidding Documents may be purchased by any interested eligible Bidder on the submission of a written application to the above address and upon payment of a non-refundable Bank Draft, Certified Cheque or Cash of N1,000.00 (One thousand Naira only) or from outside Nigeria, in a freely convertible currency, an amount equivalent to N1,000.00 (One thousand Naira only).

5. All bids must be accompanied by a bid security as specified in the Bidding Documents and both must be delivered to the above office on or before 10.00 a.m. on 29th October, 1990.

6. Bids will be opened in the presence of Bidders' representatives who choose to attend at 10.00 a.m. on 29th October, 1990, at the CONFERENCE ROOM, ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT, NO. 1 GARDEN AVENUE, ENUGU, ANAMBRA STATE, NIGERIA.

### ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT No. 1 GARDEN AVENUE ENUGU, ANAMBRA STATE INVITATION FOR BIDS (IFB)

DATE OF ISSUE: 31ST AUGUST, 1990  
LOAN NO.: 2733 UNI  
IFB NO.: MSADP-1A/VCB II - MOTOR VEHICLES, PLANTS AND EQUIPMENT

THE FEDERAL GOVERNMENT OF NIGERIA has received a loan from the INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT (THE WORLD BANK) in various currencies, equivalent to USD 162 million towards the cost of MULTI-STATE AGRICULTURAL DEVELOPMENT PROJECT (MSADP-1) and it is intended that part of the proceeds of this loan will be applied to eligible payments under the contract MSADP-1A/VCB II - SUPPLY OF MOTOR VEHICLES, PLANTS AND EQUIPMENT required for the operations to the ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT (ASADP), Enugu.

2. The ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT now invites sealed Bids from eligible Bidders for the supply of the following items underlisted:

LOT	ITEM	DESCRIPTION	QUANTITY
1	1	Saloon Cars 20-Seater Bus	39
	2		1
2	1	7-Ton Lorry	5
	2	Fuel Tankers 5-Ton Lorry	1
	3		2
3	1	Motorcycles	200
4	1	Generating Set: 35.0 (KVA) 20.0 (KVA) 15.0 (KVA) 12.5 (KVA) 8.0 (KVA)	3 6 74 3 3
5	1	Vibrating Plate Compactor Vibrating Tyre Roller	1 1

LOT	ITEM	HP	HEAD H (m)	FLOW QCM3/HR	MAX. DIAMETER OF PUMP (mm)	QUANTITY
6	1	7.5	25	25	100	15
	2	7.5	71	25	100	2
	3	7.5	40	15	100	20
	4	10	60	30	100	20
	5	8.25	25	15	100	10
	6	4-5 min	25	0.8	75	500

LOT	ITEM	DESCRIPTION	QTY
7	1	Truck-Mounted Crane	1
	2	Toy Van (Light Vehicle)	1
	3	Toy Van (Heavy Vehicle)	1
8	1	4-WD Station Wagon	10
	2	4-WD Double Cabin Pick-up	15

3. Interested eligible Bidders may obtain further information, inspect, and buy the Bidding Documents from:  
THE PROJECT MANAGER,  
ANAMBRA STATE AGRICULTURAL DEVELOPMENT PROJECT,  
NO. 1 GARDEN AVENUE,  
ENUGU, ANAMBRA STATE,  
NIGERIA.

4. A Complete set of Bidding Documents may be purchased by any interested eligible Bidder on the submission of a written application to the above address and upon payment of a non-refundable Bank Draft, Certified Cheque or Cash of N1,000.00 (One thousand Naira only) or from outside Nigeria, in a freely convertible currency, an amount equivalent to N1,000.00 (One thousand Naira only).

5. All bids must be accompanied by a bid security as specified in the Bidding Documents and both must be delivered to the above address on or before 10.00 a.m. on 31st October, 1990.

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## LEGAL NOTICES

CONTINENTAL CAR RENTAL (UK) LIMITED

We, Nigel John Voight and John Martin Roda, of 200 Gully 8 Grafton Road Reading Berkshire RG1 1JQ hereby give notice that on 25 January 1990 I was appointed Joint Administrative Receiver of the above-named company by Midland Bank Plc under the terms of a debenture dated 21 June 1989 giving the holders a floating charge over the whole of the company's assets.

Date this 28th day of January 1990  
N J Voight  
Joint Administrative Receiver

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National Tanker Co. (Pvt.) Ltd., a Government of Pakistan Enterprise, invites offers for transportation of Crude Oil from Middle East Gulf Ports, excluding ports of Iraq and Kuwait, to Karachi Pakistan, under a Contract of Affreightment. The period of the Contract of Affreightment will be one year commencing from 1st November 1990. Total quantity to be transported during the period will be 1.6 Million metric tons +/- 10%, in cargo lots of 50,000 to 75,000 metric tons at approximately evenly spread intervals.

Companies interested may obtain the tender documents, draft C.O.A. and detailed terms and conditions on payment of U.S\$ 500 in the form of Pay Order or Bank Draft drawn in favour of National Tanker Co. (Pvt.) Ltd., Karachi. The tender documents will be available from any of the following offices, on weekdays upto 30th September 1990:-

1. Chief Executive  
National Tanker Co. (Pvt.) Ltd.  
35-B North Circular Avenue, Phase-I  
Defence Officers Housing Authority  
Karachi-75500
2. Regional Representative  
Pakistan National Shipping Corporation  
450 High Road, Iford IG1 1UF  
New York, NY-10006
3. Regional Representative  
Pakistan National Shipping Corporation  
24th Floor, 21-West Street  
New York, NY-10006
4. Regional Representative  
Pakistan National Shipping Corporation  
173-174 Gloucester Road  
Wan Chai, Hong Kong

The last date for submission of the tender bids is 10th October 1990 as per time/procedure stated in the tender documents.

Chief Executive, National Tanker Co. (Pvt.) Ltd.,  
35-B, North Circular Avenue, Phase-I, Defence Officers Housing Authority,  
Karachi-75500/PAKISTAN

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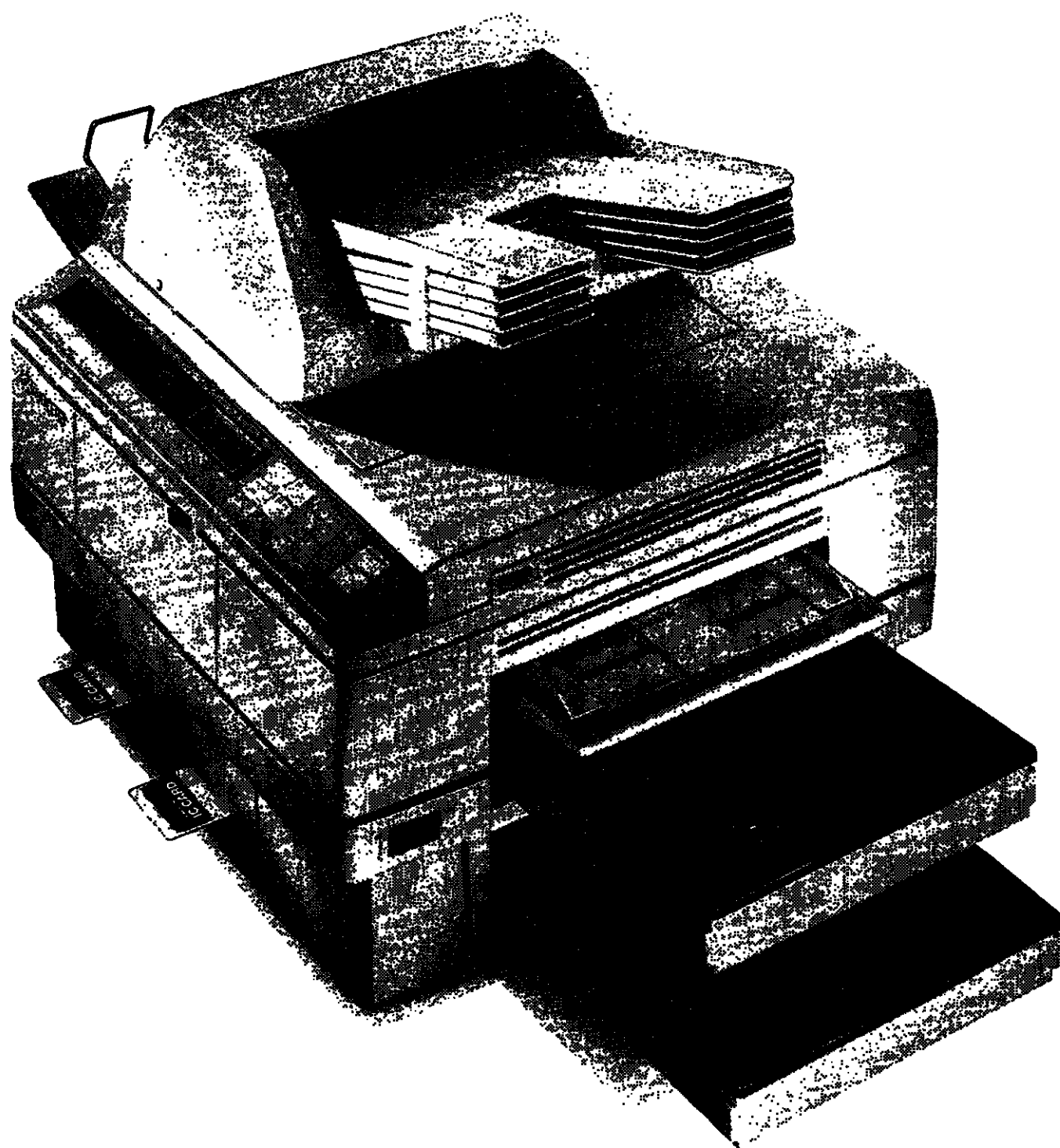


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## THE WEEK AHEAD

## ECONOMICS

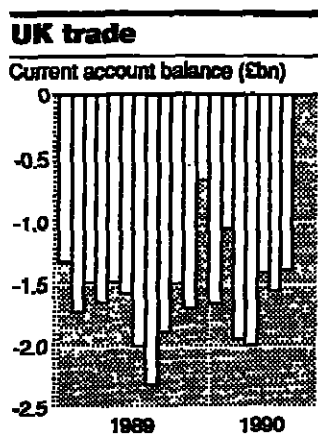
## Passing the verdict on US growth

ALL eyes this week in the UK will focus on any further hints about the extent to which Britain is sliding into an economic slowdown. Publication today of the trade figures for Britain in August, which are likely to show yet another resounding deficit, will fall to offer much in the way of cheer.

UK government authorities may be inclined to add more details about the conditions on which Britain will enter the exchange rate mechanism of the European Monetary System. This could have the effect of calming financial markets.

In the US, a welter of statistics will indicate how much further the US economy has lurched into a recession. Attention will also focus on the annual meetings of the International Monetary Fund and World Bank in Washington. Much of the serious discussion on policy issues has already taken place in the weekend meetings of Group of Seven finance ministers and in the IMF's policy-making interim committee.

However, the problems of eastern Europe and the devel-



oping world will bulk large in this week's formal sessions, which will also see Czechoslovakia rejoin, and Bulgaria join, the IMF and World Bank. There will no doubt be more conjecture about how events in the Gulf will affect demand and consumption patterns.

During the week West Germany will announce August import prices and the September cost of living index. Italy will announce September consumer price rises.

Notable events and statistics due this week are as follows. The figures in brackets give median market forecasts from MMS International, a financial research company.

Today, US: Treasury Statement for August; Washington, IMF interim committee ends meeting; IMF/World Bank development committee meets. Canada, July wholesale trade figures. UK, Confederation of British Industry monthly trends survey; current account for August (£1.4bn deficit); visible trade balance (£1.5bn deficit).

Tuesday, US: gross national product growth for second quarter (1.2 per cent); fixed GNP deflator (4.7 per cent); second quarter corporate post-tax profits (down 0.7 per cent); home sales for August; September car sales; report by US Office of Management and Budget on Gramm-Rudman cuts to take effect on October 1. Washington: formal opening of IMF/World Bank annual meeting, which continues until Thursday, France: trade balance for August (FFr6bn deficit). UK, building society new

commitments in August.

Wednesday, US: durable goods orders for August (down 1 per cent); personal income growth for August (0.4 per cent); August personal consumption expenditure (up 0.3 per cent); Japan: retail sales for August (up 9.5 per cent on year).

Thursday, US: initial claims, money supply data. Australia: current account for August (A\$1.54bn deficit). France: consumer price index for August (up 3.5 per cent on year). Japan: industrial production for August (up 1.5 per cent).

Friday, Chicago: National Association of Purchasing Managers Index for September.

US: leading indicators for August (down 0.9 per cent); September agricultural prices; August bank credit and commercial and industrial loans; Canada, real GDP at factor cost (down 0.1 per cent); Japan: September consumer price index (up 3 per cent on year). UK: second quarter personal income.

Peter Marsh and Rachel Johnson

## UK COMPANIES

TARMAC, regarded as a microcosm of UK construction as its activities range from quarrying to house building, is on Tuesday expected to illustrate the industry's contraction with a pre-tax profit fall of more than a third to around £100m for the first half of the year.

The figures have to be compared with a particularly strong performance in the first half of last year.

A prime example of the problems faced since then is that housing starts so far this

year have fallen by 27 per cent.

Beazer, due to report its June-year-end final results on Thursday, has also been grappling with the housing slump. Its pre-tax profit is expected to fall from £142.5m to £95m.

One cause of concern about the company, which saw its share price fall by 14 per cent on Thursday, is its borrowings, which stood at more than £1bn at the year-end, giving 90 per cent-plus gearing.

Redland, the building materi-

als group which reports its interim results on Thursday, is expected to increase taxable profit slightly from £104m.

Thursday's announcement of its interim results cannot come too early for Brent Walker after the trauma of the past few weeks followed by Friday's share price fall. The bulk of opinion among analysts still favours pre-tax profits of around £40m in comparison with last year's £30m at this stage.

Also due on Thursday are

interims from Trusthouse Forte with analysts looking for about £110m pre-tax, less than the £118m at the comparable stage last year due to smaller contributions from property disposals and the Savoy stake.

Vickers, the Challenger tanks to Rolls Royce engineering group in which Sir Ron Brerley's IEP securities have a 20 per cent stake, announces interim results on Thursday. Analysts are expecting it to report around £40m pre-tax against £33m.

## UK COMPANIES

## TODAY

## COMPANY MEETINGS:

## Domestic &amp; Foreign:

## Elders Ltd.

## Interim:

## Carris

## Hughes Food, Cave Castle

## Brown &amp; Jackson

## Merridown Wine, Hiram

## Village Hall, Hiram

## Headfield, East Sussex, 12.00

## BOARD MEETINGS:

## Finale

## Cornwall Parker

## GT Japan Inv. Trust

## Hays

## M&amp;P

## Polytype

## Interim:

## Aberdeen Petroleum

## Antiochian Hides

## Brent Chemicals

## Edinburgh Fund Managers

## Headline

## Hibernian

## Kelt Energy

## Lamont

## Malahar

## Malahar Trust

## Schroder

## Steeley

## TOMORROW

## COMPANY MEETINGS:

## Black Arrow, 7.45 London

## Road, Hounslow, Middlesex, 12.00

## Goode Durrant, The Waldorf

## Hotel, Aldwych, W.C., 11.00

## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

## Save &amp; Invest, Return of

## Assets Inv. Trust, 1 Finsbury

## Square, E.C., 3.00

## Wood (John D.), 28 Curzon

## Street, W., 12.00

## WEDNESDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

## Dawson Corner, Pudding,

## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

## Save &amp; Invest, Return of

## Assets Inv. Trust, 1 Finsbury

## Square, E.C., 3.00

## Wood (John D.), 28 Curzon

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## THURSDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

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## 12.00

## Brassey, Europower

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## FRIDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

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## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

## Save &amp; Invest, Return of

## Assets Inv. Trust, 1 Finsbury

## Square, E.C., 3.00

## Wood (John D.), 28 Curzon

## Street, W., 12.00

## SATURDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

## Dawson Corner, Pudding,

## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

## Save &amp; Invest, Return of

## Assets Inv. Trust, 1 Finsbury

## Square, E.C., 3.00

## Wood (John D.), 28 Curzon

## Street, W., 12.00

## SUNDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

## Dawson Corner, Pudding,

## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## TODAY

## COMPANY MEETINGS:

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## Steeley

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## Assets Inv. Trust, 1 Finsbury

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## WEDNESDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

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## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

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## Reading, 12.00

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## Assets Inv. Trust, 1 Finsbury

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## Street, W., 12.00

## THURSDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

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## 12.00

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## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

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## Assets Inv. Trust, 1 Finsbury

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## Wood (John D.), 28 Curzon

## Street, W., 12.00

## FRIDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

## Dawson Corner, Pudding,

## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

## Save &amp; Invest, Return of

## Assets Inv. Trust, 1 Finsbury

## Square, E.C., 3.00

## Wood (John D.), 28 Curzon

## Street, W., 12.00

## SATURDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

## Dawson Corner, Pudding,

## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

## House, 14-18 Boulton Road,

## Reading, 12.00

## Save &amp; Invest, Return of

## Assets Inv. Trust, 1 Finsbury

## Square, E.C., 3.00

## Wood (John D.), 28 Curzon

## Street, W., 12.00

## SUNDAY

## COMPANY MEETINGS:

## ASDA, Pudding Civic Hall,

## Dawson Corner, Pudding,

## 12.00

## Brassey, Europower

## Hydraulics Ltd., Southgate,

## Northbrook, Northbrook

## TODAY

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## Malahar Trust

## Schroder

## Steeley

## TOMORROW



## ARTS

## ARCHITECTURE

## Bold civic statement

Imagine yourself the builder of one of the great Victorian town halls of Britain taking a rest outside one of the magnificent edifices in Manchester, Leeds, Cardiff, Belfast or Rochdale. Glancing up at your towering achievement, what a sense of pride you would feel in your town and in the civic virtues embodied in your great municipal cathedral.

New town halls today are rare and sadly tend to be seen as the home of the wicked poll tax collectors or as under siege, starved of funds by central government. It is hard to believe that a capital city of the size and importance of London has been forced by central government to sell its great seat of government, the County Hall, to the highest bidder for conversion into flats and offices. Greater London has no overall government and the decline of public services surely reflects the absence of any focus of civic pride.

It is therefore unusual to see a brand new town hall designed as the result of an architectural competition and built at the height of the poll tax rows and troubles. In the little town of Epping, in Essex, a small, but major, new civic building is now complete and almost fully occupied. The Epping Forest District Council held the competition in 1984-5 and in their brief asked for a "high quality design appropriate to its situation and setting." Richard Reid Architects were the winners, a firm that is based in Kent and best known for its unusual mixture of an understanding of the English traditional vernacular and an awareness of international architectural style and fashions. Richard Reid has always been eager to find a way of utilising his understanding of townscape to

design new buildings that fit into their settings. The civic offices he has built for Epping District Council are a strong and bold statement that puts Epping onto the international architectural map, and an exercise in "townscape enhancement".

The town hall is on the current architectural map for another key reason. It embodies to a degree the current architectural dilemma. It follows the ideas of traditional building forms while at the same time adopting industrialised, contemporary building methods. We are all becoming familiar with the steel or concrete frame clad in cavity brick construction or panels of suspended stone. We know that the building structure is such that it could be clad with glass or plastic but we have to try and believe the illusion that it is built of bricks and solid masonry. It is a curious dilemma. The Modern Movement spent a lot of time trying to convince the world that architecture was visible, functional structure. The post-modern architect tries to complicate the structural tradition by hanging a variety of clothes on the invisible hangers.

It is not the architectural theory or debate that will concern most visitors to Epping. They will want to know two things: what does the new town hall look like and how well does it fit into the town? The town is still a handsome market town with a wide high street lined with agreeable inns and shops. Some of the shops are gabled and many are of painted weather boarding. There are two strong features that you cannot fail to notice: the Victorian water tower and the great tower of the parish church of St John the Baptist, designed by the great church architect of the turn of the century, G.F. Bodley. This



A third tower for Epping: Richard Reid's fine new town hall

is a particularly striking tower with battlements and great decorated windows. The site for the town hall is at the northern end of the High Street where it widens out onto a large green where there are some good original Georgian houses and a lot of less interesting neo-Georgian ones.

It seemed right to the architect to give his design a large tower of brick. I think he was right to add a third great vertical statement to the town. It could be seen as representing civil government alongside the spiritual and utilitarian aspirations of the other two towers. This tower is four sided rising up to a smaller octagon above the clock. It is topped by a bold stone cornice and the top row of windows is a viewing room where the public can watch the gradual removal of London's Green Belt. There is also a grim reminder that London's country towns are really suburbs serving the Great Wen. You can see the rising tower of Canary Wharf - the cruelly out of scale tower that so clearly demonstrates the

unplanned growth of London's Docklands.

At ground level the tower is alongside the very handsome main entrance arch and the protruding curve of the cream rendered council chamber wall. These three elements each mark a significant function of the town hall and express it clearly in architecturally distinctive ways. A fourth element, the "mayoral" suite and chairman's office are also clearly expressed by a stone and rendered projection from the brick. Considering that a large part of the rest of this building is simply offices, I feel that Richard Reid has achieved a great deal by giving the town hall a real sense of civic authority without making it grandiose.

Inside, the finest architectural achievement is the horse-shoe shaped lofty council chamber. The detailing of the furniture and the carefully planned inclusion of public galleries and the respectful use of colour make this a very fine room. Public waiting areas have an unusual character -

the striped pink and white atrium is redolent of much American post modernism and has no particular connexion with the locality. There are only two commissioned works of art, agreeable figurative panels that portray local myths and legends by a local artist, Irene Reeve. There was surely scope for more decorative and commissioned work.

I have some problems with the overall scale of town hall in relation to the domestic nature of the site. The tower is strong and effective and the architectural articulation of the main facade is excellent, but the use of primary colours for the paintwork is pointless following of fashion and takes away from the seriousness of the design and composition.

Epping has acquired a building very much of our times that adds a strong architectural note to a modest town. I feel that the people Epping were lucky to have found Mr Reid, although I sense they are still feeling rather surprised.

Colin Amery

## Leeds Competition finals

LEEDS TOWN HALL/BBC2/RADIO 3

Talent-spotting aside, the most remarkable thing about this year's Harveys Leeds International Piano Competition was quite unforeseen and unforeseeable, and surely a first-ever. A mass audience - the BBC's, in prime time on a Friday and a Saturday - was treated to an intensive course on Schumann's piano concerto, and in the perfect format. No bleeding extracts, no tendentious musicology, no verbal attempts to articulate the obvious or the inaudible; just four complete, rewardingly distinct performances, their differences - by no means always for "better" or "worse" - underlined by their having the same conductor and orchestra.

With his City of Birmingham Symphony, Simon Rattle played up to each of his soloists in turn with a flexible sympathy that was nothing short of astounding. There are opera conductors with the knack, but among the famous podium masters of the day I doubt there are more than two or three (if that) who could match Rattle's feat. Inevitably there was one pianist whose way with the Schumann was temperamentally most attuned to Rattle, the 26-year-old German Lars Vogt (the second prizewinner), and together they generated a performance of glorious, crackling vitality.

It was good to hear Haesun Paik (fifth prize) in broadcast sound that revealed her sensitive virtuosity - heard live in the semi-finals, her lightweight tone and nervy fingers hadn't been flattered by the boomy Town Hall acoustics. Schumann's finale nevertheless stretched her to the limit. That was where Balazs Szokolay, the Hungarian E.T.-clone, earned third prize. Yet Le Sage's Concerto in the semi-finals had been seriously exciting; I tried to imagine how his concerto might have gone with, say, Jean Fournet as conductor.

The finale of Beethoven's Concerto no. 1, the choice of young Andrei Zhelezonog (sixth



Leeds winner, Artur Pizarro

prize), was downright deflated; he seemed to have been discouraged by earlier mishaps, though his real quality had been audible in the pensive Largo. No mishaps were expected with Artur Pizarro, the winner. Though he struck the occasional clanger in Rakhmaninov's Third, he is already a kind of master-pianist and dared to take on the monstrous alternative cadenza: the underlying wildness of the concerto was felt. His precocious authority, his evident passion for the work and his fine-tuned conductor-partner secured a ringing result.

David Murray

## Meredith Monk

ROYAL FESTIVAL HALL

Voice Over, a new British music festival, is designed simply to celebrate the human voice. Bulgarian, Indian, Russian, jazz, new-wave - the range is wide. No stars of the operatic firmament are announced; though the publicity doesn't say as much, this festival is alternative.

Certainly such a Voice Over could have no more appropriate launch than Thursday night, when Meredith Monk, with her vocal ensemble, presented a concert of her music, *Book of Days*. This music has vowels, consonants, syllables - but seldom words. Partly, she takes inspiration from the natural world; partly, she suggests language fragmented and eroded; partly, language is what she seeks to transcend. You want her to arrange Aristophanes' "brekekekex" frogs; chorus; but for her time would be child's play. She began by herself. Of her 12 short solos, all save the last were unaccompanied. She herself has several voices, and she

has developed elaborate techniques for all of them. You can hear how she has cultivated breathing, resonance, attack; but some of what she does is deliberately unclassical.

I guess that, if only she could, she, like Emma Calvé, would go study with a castrato; but instead she has studied from birds, instruments, jazz, and several different folk traditions. She'll add breathiness to one passage, sing while breathing in, or produce a rapid series of isolated notes like a woodpecker or gunfire.

It is small-scale vocalism, and she uses a microphone. While she is alone, I never regret this. She's a wholly absorbing performer, and, as you go on listening, you admire not just her accomplishment but also her wide-ranging humanity.

Two solos are in fact duets. Now she is high, young, now low, experienced and rebuking; and these things are the more affecting for being abstracted and wordless. You hear hints

of jazz scat, folk ballad, Negro work song. And she can also be amazingly impersonal, as in the final solo in which she sings, breathes noisily and - simultaneously - plays a Jew's harp. A true virtuoso.

The other three-quarters of the programme were with other singers, playing, with some instrumental accompaniment, excerpts from works old, recent and still in progress. Monk's music often uses the steady pulse and repetition of minimalism - but, to her, mere is never a rut to stick in or a trance to float in. These compositions always build from simple to complex.

To hints from one culture or period, they'd add aspects of others, until, time and again, I found my head happily brimful - when Monk would start a new tack. And often it was witty, lyrical and, nothing more, more adorable than a Tokyo Cha-Cha, a hymn to "the most surreal of cities".

Alastair Macaulay

## McCabe flute concerto

BARBICAN HALL

The latest National Tour of the London Symphony Orchestra - seven concerts in seven British cities over nine days, led by the orchestra's chief, Michael Tilson Thomas (and sponsored

by Shell) - began on Thursday at home base, and offered one of the two featured programmes. For the four resident soloists, James Galway, had inspired a new flute concerto from John McCabe; Thursday's was its first performance, to be followed by two more (separated by four of Mozart's G major, K313) during the run.

McCabe is a composer who knows how to make his music "modern" but unthreateningly so; he also judges with masterly accuracy how to capitalise on the special gifts of his soloist - in this case, the fabled Galway virtuosity and confident projection of personality. The 20-minute, unbroken span of the concerto, in which four separate movements are subsumed, is notable above all for the ravishing interplay of flute and other woodwind (including two companion flutes spaced at opposite ends of the orchestra).

Flutters, swooping arabesques, games of follow-my-leader, and concluding hints of gluge and saltarello melodies are pursued while a large orchestra (big brass and percussion section) mostly sustains pedal-points or chattering repeated patterns beneath. The

buzz of fast-moving parts which are at the same time static and decorative in effect (at times orientally so) is the concerto's "signature": the musical texturing is cool (because well-ventilated), immensely elegant, captivating in detail.

I started out enjoying the musical progress inordinately, but about midway found myself becoming restless. Perhaps this was because by that time McCabe's repertoire of patterns had become familiar, and because, apart from passages of post-Ravellian solo-flute wishfulness or languor, there didn't seem to be much actual content to bite into.

For all that it's an expertly made piece, evidently relished by Galway (who made the closing switch to alto flute a moment of beautiful contrast) and his accompanists. Altogether, the programme was a typically fresh, lively LSO-Tilison Thomas mixture: Beethoven's Eighth Symphony to open, *L'Après-midi d'un Faune* (swooningly sensuous Debussy, finely achieved) and a properly sensational Janáček Sinfonietta to close.

Max Loppert

## Save the Young Vic Campaign

John Malkovich, Juliet Stevenson and the company for Burn This at the Lyric Theatre, Shaftesbury Avenue, will donate a special matinee benefit performance for the Save the Young Vic Campaign on October 3 at 2.30pm.

Maintenance work is currently being carried out in the Young Vic Theatre as Phase 2

of its Campaign gets underway. So far total raised stands at £135,000, and on October 28 the theatre reopens for The Save the Young Vic Festival (until October 4). This will kick off with a huge street carnival in The Cut and culminates in a celebrity Gala, an auction of memorabilia and an auction of promises.

## Consort of Musicke

WIGMORE HALL

The authentic movement is approaching true respectability. At a time when performances on period instruments are starting to become generally accepted even in the classical and early romantic repertoire, it is useful to be reminded that the pioneers in the field are coming of age.

The Consort of Musicke is 21 this year. The souvenir booklet for its three evenings (plus Sunday morning coffee concert) at the Wigmore Hall over the weekend included a chronology of achievements that leaves no doubt as to the formative influence the group enjoyed in its early years. The changing membership that it documents also shows how the emphasis of the group has gradually shifted from instruments to voices.

In these four concerts the focus was exclusively on the six singers of the madrigal group, except for the opening Monteverdi evening which had instrumental accompaniment. With lutes, chitarroni, harp, organ and baroque violin, that would have been a fairly lavish affair in Monteverdi's day and the occasion was used by Anthony Rooley to make some pointed comparisons between the financial status of the arts then and in 1990.

The single opus on the programme was Monteverdi's Sixth Book of Madrigals. (Rooley, founder of the Consort of Musicke, was among the first to favour integral performance of an original publication.) In this music the quality of the singing, the artists' sense of balance and responsiveness to one another, hardly needs further commendation, though the emotional power they get from a piece like "Zefiro torna" still hits one as much as any time.

Item by item the remarkable variety of Monteverdi's imagination was done full justice: the pain and drama of "Ariadne's Lament," the light "locality" of "Qui rise, o Tirsi." The only serious regret is that it was not possible to hear more of the Italian words. It really is ironic to sit wondering what an important line said and then look down at the programme to find it was "My words were borne away upon the wind."

On Saturday the performers turned their attention to Vechi and his humorous sketches. Enjoyable though these were, I feel there is something false about pieces of this kind being given like a charade with movements and self-conscious grins in the context of a

public concert today. One of the most difficult issues yet to be tackled by the authentic movement is how to reproduce the atmosphere of an original performance.

Still, thanks to the Consort of Musicke and the other groups that have followed in their wake, there is now an audience for this music. If it was not as large a gathering at the Wigmore Hall on Saturday as it might have been, this was no reflection on the quality of the music-making. Rooley may have put up a spirited defence of the need to charge higher prices, but £21 as a top price is a bit steep - even for a 21st birthday.

Richard Fairman

## Long at the Tate

Richard Long, winner of the 1989 Turner Prize, is to install three new works at the Tate occupying the entire length of the sculpture galleries. He is the first artist to be invited to fill this entire area, and the works can be seen from October 3 to January 5 1991.

A retrospective of Long's work will be presented at the Hayward Gallery from June 13 to August 11 1991.

## The Marquis of Keith

Gate Theatre

Fearsome-looking (block-headed, hair cropped, sideburns like scars), Garry Cooper bursts out of the tiny Gate Theatre with his frightening and mesmerising interpretation of the title role in

It is Munich in 1899 and the Marquis is simultaneously at the centre and at the edge of the bizarre cafe society of the German city. In his own words "a cross between philosopher and horse thief," he is a cripple, a confidence trickster and an impressario, promoting his ambitious project - a Hall of Wonders in which his artists can perform - to a shifting gallery of puffed up grandees and social climbers.

The Marquis Keith may not be a marquis - he "came into the world a mongrel" - but he has no less valid a claim to a place in the Bavarian beau monde than the other mongrel counts and countesses. Social positions are unstable in this world, promotion and demotion rapid: from shop girl to diva, from jail bird to police commissioner.

Short of cash and unable to sell another Expressionist painting to hide himself over Keith takes on the task of transforming the spineless and chinless Scholz (Adam Black-

wood) into a bon viveur, accepting the commission with a mixture of distaste (for Scholz) and relish (for the money). Cooper plays the marquis more as horse thief than philosopher.

By contrast, when the accident-prone Scholz injures his leg during a firework party to launch Keith's project he simply becomes more ridiculous, for instance in his attempts to seduce Matilda Ziegler's alluring singer, a scene the director Mark Dornford-May is not afraid to milk for the laughs it deserves.

Dornford-May's production of this new translation by Steve Gooch is sure footed when it comes to this theme of social pretence and trickery. A strong cast conjures up the fragile atmosphere of a society in flux with great conviction, helped by Claudia Mayer's versatile design. Where they struggle is in convincing us about the attraction of the Marquis Keith. But this is a small flaw in an exciting production. Any impresarios out there with an empty Hall of Wonders should take note: this play deserves a larger arena than the Gate, if only to accommodate Garry Cooper's performance.

Andrew Hill

## ARTS GUIDE

## MUSIC

## London

Quarum. Julia Munro (clarinets), Martin Pring (violin), Hugh McDowell (cello), Andy Spicely (piano) with Martin Harvey (trumpet) (Mon). Purcell Room (822 8800).

The London Classical Players conducted by Roger Norrington with Melvyn Tan (fortepiano). Queen Elizabeth Hall (928 8900). Royal Philharmonic Orchestra conducted by Mark Elder with Elizabeth Connell (soprano), Linda Fennie (mezzo-soprano), Edmund Barham (tenor), Willard White (bass) plays Verdi's Requiem (Wed). Royal Festival Hall (828 8900).

Sir Michael Tippett 85th Birthday Concert with The London Bach Orchestra. Conducted by John Lubbock with Teresa Cahill (soprano). Programme includes works by Corelli, Tippett and Mozart (Thur). Barbican Hall (638 2891).

## Paris

Zurich's Collegium Musicum conducted by Paul Sacher. Martin Dutilleul, Honegger (Mon). Théâtre des Champs Elysées (479 0657).

Peter Scheller recital (Mon). Salle Gaveau (493 0607).

Michael Ponti, piano. Chopin, Tchaikovsky (Wed). Salle Gaveau (493 0607).

Ghent Vocal Collegium conducted by Philippe Herreweghe. Schütz (Wed). Saint-Louis des Invalides chapel (423 0206).

Orchestre de Paris conducted

by Semyon Bychkov, Orchestre de Paris choir conducted by Arthur Oldham. Mozart, Beethoven (Wed, Thur). Salle Pleyel (463 8873).

Orchestre National de France conducted by Manuel Rosenthal, Anne Queffelec, piano. Debussy (Thur). Théâtre des Champs Elysées (479 0657).

## Picardy

The 3rd Cathedrals' Festival brings oratorios, masses and cantatas to the cathedrals of Laon, Sens, Abbeville, Soissons and Compiègne. Ends Oct 5. Free telephone information (05225220) and locally.

## Amsterdam

Marijana Lipovsek (mezzo) accompanied by Gerard Wyss. Von Eimann. Brahms, Mussorgsky (Tue). Concertgebouw (781 345).

## Utrecht

Rotterdam Philharmonic with Frank Peter Zimmermann (violin). James Conlon conducting. Strauss, Mozart (Thur). Vredenburg (31 46 44).

## Brussels

The Festival of Flanders has evolved over the past decade into a major European music festival. It will continue through the autumn with concerts and opera in auditoria, museums and chateaux across Belgium. BRT Philharmonic Orchestra conducted by Alexander Kharburi with Don Suk Kang in a programme of Debussy, Nielsen and

Ravel (Fri). Palais des Beaux-Arts.

Ensemble Instrumental de France conducted by Aldo Ciccolini performing Mozart (Tue). Palais des Beaux-Arts.

Maurizio Pollini (piano) plays Beethoven, Boulez and Webern (Wed). Palais des Beaux-Arts.

La Petite Band and the Flanders opera chorus conducted by Sigiswald Kuijken perform Haydn's *Die Jahreszeiten* (Thur). Théâtre Royal de la Monnaie.

## Antwerp

Festival of Flanders. Alban Berg Quartet play Bartok and Mozart (Tue). De Singel.

Luciano Favaretto (tenor) with The Flanders Philharmonic Orchestra conducted by Leone Magiera. Andrea Griminelli (flute) (Sat). Sportpaleis (091-25 77 80).

## Gent

Juliaard String Quartet perform Hindemith, Mozart and Ravel (Tue). Festivalhal Bijloke-abdy (091-25 77 80).

## Berlin

Dietrich Fischer-Dieskau Lieder recital, accompanied by Hartmut Höb in songs by Hugo Wolf (Tue). Opera House.

Berlin Philharmonic Orchestra under Kurt Masur with Arleen Auger (soprano). Strauss and Beethoven (Sat, Sun); and conducted by Pankas Steinberg with soprano Karen Armstrong. Poulenc and Stravinsky (Wed, Thur). Oper House.

## Frankfurt

Frankfurt Opera and Museum conducted by Garcia Navarro with Marcela Holsappel (soprano) and Alicia de Lara (piano) play works by Hindemith, Mozart and Fula (Sun, Mon). Alte Oper.

## Munich

Uto Ughi (violin) in a concert of Brahms and Richard Strauss conducted by Christian Thielemann (Fri). Teatro Alla Scala (80.91.26).

Hermann Frey singing Beethoven and Brahms (Sat), Schumann and Wolf (Sun) and Schumann (Tue). Teatro Alla Scala (80.91.26).

## New York

New York Philharmonic conducted by Zubin Mehta with Florence Quivar (mezzo-soprano) and the Westminster Symphonic Choir directed by Joseph Flannery. Mahler (Tue). Zubin Mehta conducting with Evgeny Kissin (piano). Schubert, Stravinsky, Chopin (Tue). Marjorie Martin (soprano). Barber, Strauss (Thur). Avery Fisher Hall, Lincoln Center (874 6770).

Los Angeles Philharmonic conducted by Esa-Pekka Salonen with Itzhak Perlman (violin). Beethoven, Barber, W. Schumann (Tue). Andrew Previn conducting with Emanuel Ax (piano). Stucky, Beethoven, Vaughan Williams (Thur). Carnegie Hall (247 7400).

## National Symphony Orchestra

conducted by Mstislav Rostropovich, with Beaux Arts Trio. Martinus Schmitt, Mozart, Beethoven (Mon). Mendelssohn, Mozart, Beethoven (Wed). Suntory Hall (288 9599).

1 Soloist Versed with Stanislav Bunin (piano). Vivaldi, Rossini, Mozart. Suntory Hall (Tue) (403 8011).

## Chicago

Chicago Symphony Orchestra conducted by Sir Georg Solti with Daniel Barenboim (piano). Bartok, Mahler (Thur). Orchestra Hall (435 3222).

## Tokyo

Academy of St Martin-in-the-Fields conducted by Sir Neville Martinus Schmitt, Mozart, Beethoven (Mon). Mendelssohn, Mozart, Beethoven (Wed). Suntory Hall (288 9599).

1 Soloist Versed with Stanislav Bunin (piano). Vivaldi, Rossini, Mozart. Suntory Hall (Tue) (403 8011).

NHK Symphony Orchestra conducted by Yuzo Toyama, with Brigitte Fassbaender (alto). Franz Liszt (Wed, Thur) (485 1781).

Tokyo Metropolitan Symphony Orchestra conducted by Okko Kamu with Reiko Watanabe (violin). Sibelius programme. Tokyo Bunka Kaikan (Thur) (688 0727).

Christa Ludwig (mezzo) with Charles Spencer (piano). Schubert, Schumann, Brahms, Strauss. Tokyo Bunka Kaikan (Thur) (288 9999).

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## Entrepreneurs and the City

THE EVENTS at Polly Peck International over the last few weeks raise important questions about corporate governance and accountability. How can the free-wheeling style of a powerful entrepreneur, who created and continues to dominate his business, be reconciled with the responsibilities of a publicly quoted company?

Mr Asil Nadir of Polly Peck is not the first such entrepreneur to find such responsibilities irksome. Some of them have sought to take their companies private, as Mr Nadir tried to do, but that is a difficult operation for a company as large as Polly Peck. As long as they remain public companies, they have to accept some restraint on their freedom of action, but existing arrangements in the City are not well designed to provide that restraint.

Companies led by a buccannering chief executive tend to attract a large and loyal band of private shareholders who are consciously pinning their hopes on that individual. He may be unconventional and he may regard his board as largely ornamental, but as long as he keeps profits rising they will support him. The big institutions, by contrast, are generally suspicious and shun the shares.

The ability of institutions to influence the behaviour of public companies is limited at the best of times, but in cases of this kind their leverage is even smaller. Indeed, an attempt by an institutional shareholder to strengthen the non-executive directors of Polly Peck has not been supported, despite general unhappiness about the composition of the board.

### Personal fief

It might be said that cramping the style of the entrepreneurial leader would be bad for the company's business and thus bad for shareholders. The chief executive, warts and all, is the company; his drive and energy are responsible for its success. But the fact is that the business is not his to run as a personal fief.

A public quotation provides access to funds with which the company can make acquisitions and grow even faster. In return, there is an obligation to conform to the rules, both

statutory and non-statutory, which by requiring full disclosure and accountability safeguard the health of the system as a whole. The danger is that, if there are no checks and balances within the company, the temptations to bend the rules. The consequences can be even more disastrous for shareholders than curbs on his management style would have been.

### Public interest

There is a public interest in ensuring that companies adhere both to the letter and the spirit of the rules. In this respect non-executive directors, institutional investors and other City firms which do business with the entrepreneurial companies all have a part to play.

The problem is that, although much lip-service is paid to the importance of non-executive directors in monitoring the chief executive, in practice there are serious doubts about their ability and willingness to do this job effectively. This is as true in the US as it is in the UK. Certainly there are some non-executive directors who take their job seriously and devote time and effort to it. Too often, however, especially in companies where a single individual wields great power, non-executive directors do not have sufficient independence or stature to stand up to the chief executive.

It is hard to see how this state of affairs can be changed without one of two possible changes. Either there must be new legislation on the composition of boards of directors, or there must be collective action by institutional investors to redefine the role of outside directors, not just in particular troubled companies, but in the system as a whole. Such changes would deal with the nature of the monitoring function, the method of appointing and rewarding outside directors, and their detailed responsibilities.

The situation at Polly Peck has now reached the point where an investigation by Department of Trade inspectors is needed, as the company can make acquisitions and grow even faster. But the underlying issue of corporate governance also needs to be addressed.

## New rivals for British Telecom

THERE IS widespread agreement that more competition is needed in the UK telecommunications markets. The current duopoly of British Telecom and Mercury Communications, which the government is reviewing later this year, has only had modest success in delivering greater choice and lower prices to the customer.

However, it is less well appreciated that introducing more competition will at the same time require tougher regulation of BT. Otherwise, new players will make slow progress and may even be deterred from competing at all. BT argues that more competition should lead to less regulation. This will be true when Britain has a fully competitive telecommunications market but it cannot be the right policy during the period of transition.

There is a long way to go. BT has a 95 per cent share of the market in phone calls. Its vast size means it has the potential to overcharge customers and squash rivals. The Office of Telecommunications, which was established to regulate the industry at the time of BT's privatisation in 1984, has been fairly successful in checking abuses of monopoly power. But it has had neither the authority nor the manpower to be completely effective.

Of the pioneer of the widely acclaimed price cap formula (RPI-X) for ensuring that BT passed on the benefits of technological improvements to its customers in the form of lower real prices. But international prices were left out of the formula - partly due to a shortage of manpower - and only recently has the watchdog studied the excessive prices people are being forced to pay to call abroad.

### No authority

Lack of the necessary authority, meanwhile, is the reason given by Sir Bryan Carsberg, OfTel's director general, for refusing to divulge information on BT's costs.

It is important to crack this monopoly on information for two reasons. It would make it easier for new companies to enter the market if they had better statistics. And it would lead to a wider public debate on telecommunications policy.

The economics of telecommunications gives BT an even greater dominance than its 95 per cent market share might suggest. The reason is that phone networks are only valuable if many people are connected to them.

New competitors which have only small networks are therefore desperate to connect to BT's network. But BT, which already has a nationwide network, sees little point in connecting to theirs. This imbalance of power gives BT much room to delay its rivals as the long running disputes between BT and Mercury over interconnection have shown.

### Formal procedures

As more competitors enter the market, formal procedures will be needed to ensure that they can get access to BT's network where and when they want, and at a fair price. One way of achieving this would be to require BT to disaggregate its services - local, long-distance and international - into separate businesses and force these to deal with new competitors on the same terms as they deal with each other.

First, they should be able to get "equal access" to BT's local network, meaning that customers with BT lines would dial different codes depending on which long distance operator they wished to use. Second, anybody wanting to give up their BT line and switch to another company should be able to keep the same phone number.

BT will have to invest in new technology if its network is to be opened up to competitors in this way. Rather than waiting for the company to make the necessary changes in its own time, the government should set deadlines.

BT may complain that all this is excessively dirigiste. However, in so far as it hastens the advent of free competition, it will also bring nearer the time when BT is free from regulation.

The truth about the brave and revolutionary Soviet reform programme drafted by Professor Stanislaw Shatalin and his fellow marketeers is that the treatment is right, but it may be too late. They have abandoned the ideological blinkers which have left the country locked in a time-war since 1917, and embraced once more the ideas of private property and an enterprise economy.

But the cancer in the Soviet body economic, not to mention politics, may already be inoperable. There was an air of complete unreality about the urgent debates in the Supreme Soviet of the USSR last week, as the deputies agonised over which programme to adopt - the Shatalin plan, or the far less coherent document drafted by the Soviet government under Mr Nikolai Ryzhkov and Dr Leonid Abalkin, the prime minister and deputy premier.

They were talking about theories and principles when all the news from around the country was of accelerating economic disintegration. From the north came the news that Leningrad and Estonia have agreed to set up customs posts between them, to control the movement of food and consumer goods. From Sverdlovsk, the industrial heart of the Urals, came a formal warning to the president that the city will suspend delivery of its industrial products if it does not get its food supplies.

Even just outside the Kremlin walls, the shops of Moscow are now far worse supplied than they are in central Asia or the Caucasus. The city has so far a stockpile of potatoes for the winter, and is begging for permission to barter its industrial products for food.

Rationing and emergency measures have eased the shortages of bread and cigarettes, but the latest crisis is over egg supplies - the market price last week hit Rbl 11 for the tiniest pullets' eggs. In the state shops, there are none.

Economic statistics almost certainly underplay the gravity of the economic crisis. The two most critical areas today are food supplies, and energy. All the evidence suggests that the bumper harvest is still rotting in the fields, with only 50 per cent gathered in many regions. The workers who traditionally used to help, are refusing to work at less than bonus wages, and where the food has been gathered, the farms are hanging on to it in the expectation of price rises.

As for oil, the world's largest producer is now importing emergency supplies of petrol and aviation fuel, because of a combination of declining production, equipment shortages, industrial unrest, transport bottlenecks, and a complete absence of serious energy conservation.

Figures for the first eight months of the year show a 5 per cent fall in output of both oil and coal, although gas was up 3 per cent. The planned production of 602m tonnes for the year was revised downwards to 575m tonnes in June, and now it is forecast at no more than 560m tonnes.

Industrial production is officially down 0.7 per cent compared with the same period of 1989, but the trend is accelerating (August was 1.7 per cent lower than August 1988) and it makes no allowance for a hidden inflation of perhaps 10 per cent per year, as factories boost their incomes by switching to higher priced products.

All that lay behind the angry, even desperate intervention of President Mikhail Gorbachev on Friday, when he savaged the indecision of the assembled deputies, and suddenly came clean on the emergency presidential powers he is seeking.

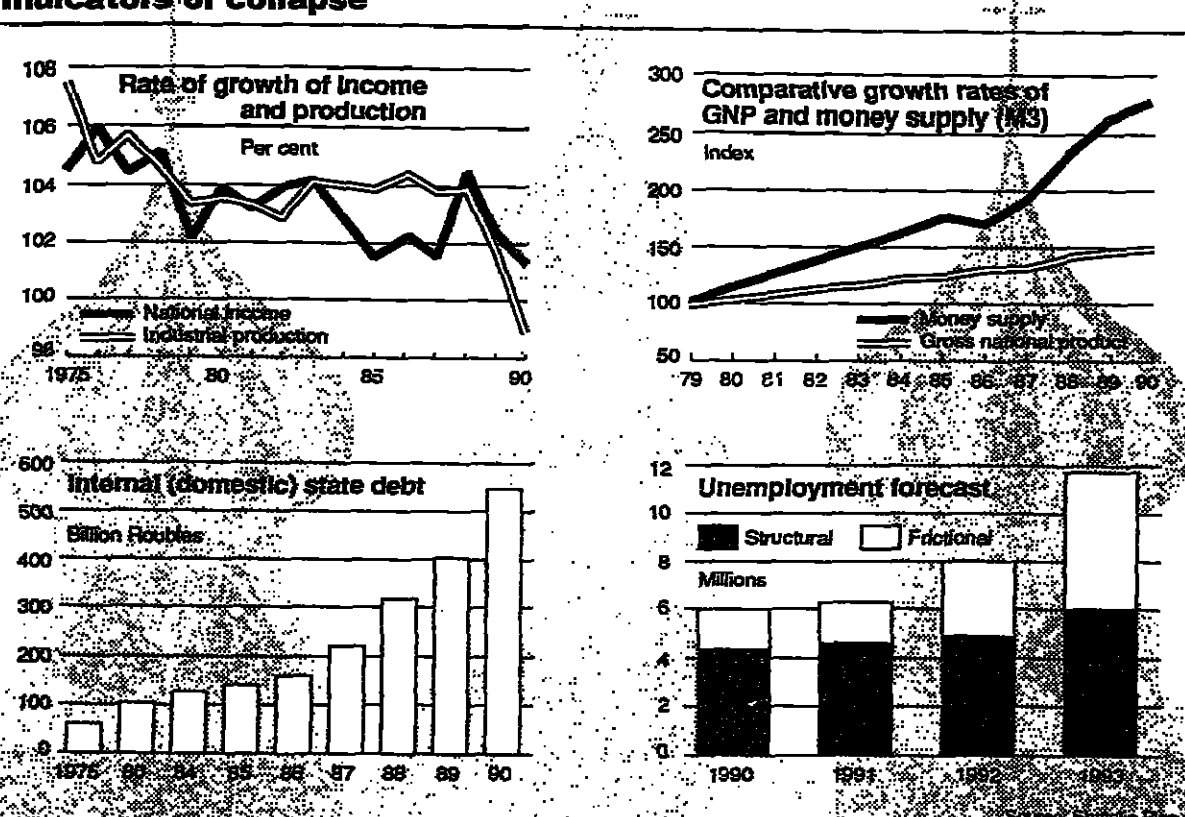
As the parliament revealed its own powerlessness by failing to produce a quorum for what was undoubtedly the most important decision it has been asked to take since it was elected last year, the president's frustration was absolute.

"We are in a position of extreme

## The radical reforms unveiled under the Shatalin plan may yet prove too late to save the Soviet economy, writes Quentin Peel

# Savage surgery on the body economic

### Indicators of collapse



danger and we must act," he declared. "We are suffering from a crisis of executive power. The processes have become so overwhelming that they could run out of control, and are already doing so in certain sectors."

What he called for were presidential powers for the duration of the crash transition to a market economy - presumably the 500 days proposed by the Shatalin programme - to include virtually every aspect of economic activity: property, wages, prices, the national budget, and public order, too.

The question is whether, even with such powers, he can execute the economic reforms the Shatalin plan demands. For the centrifugal forces in the country, the upsurge in demands for local control at every level and the collapse of the central command structure, appear to be all but out of control.

Indeed, within hours of his speech, the crucial alliance on which his reforms depend with Mr Boris Yeltsin, the Russian president, was called into question. The Russian parliament issued a statement rejecting flatly any suggestion of such sweeping presidential authority.

So what is the Shatalin plan, which in reality the Gorbachev-Yeltsin plan drafted by their closest economic advisers, trying to do?

Its two critical aims are first, to break the dead hand of centralised state control over every aspect of Soviet economic life, and second, to restore the value of money to the worthless rouble.

To do that, it proposes three key strategies. In the first place, it would

impose a ferocious credit squeeze on government spending, calling a halt to virtually every ongoing construction project, and more drastic still, stopping the flow of credit to bankrupt state enterprises. It recognises that the greatest threat to the transition to a market will come from the excess money already sloshing around in the system.

Second, it calls for a privatisation programme, beginning with housing and small businesses, and agricul-

### The cancer in the Soviet body economic, not to mention politics, may already be inoperable

tural land, and continuing with the transformation of state enterprises into joint stock companies. At the same time as these, it would give sweeping powers for each of the 15 republics to design its own programme to suit its own circumstances, introducing differing property laws and tax structures as it sees fit.

It calls for strict anti-monopoly legislation, including price controls, to prevent those state monopolies which cannot be broken up from exploiting their market position. And once those institutional reforms are under way, it would rapidly move to liberalise prices.

The plan has a logical coherence

which is missing from the Abalkin programme drawn up by the government. The latter would first raise prices by central command, pay total compensation to all wage-earners, and only slowly introduce the reforms of the central bureaucracy.

More seriously, it would if anything aggravate the huge monetary overhang which threatens to turn the first hint of inflation into a raging forest fire. Mr Shatalin's colleagues calculate that the combination of continuing subsidies, new social programmes already approved, a failure to cut back enough on investment programmes, and the cost of total wage compensation, would push the budget deficit from the current Rbs30bn-Rbs90bn to a gigantic Rbs300bn-Rbs400bn next year - potentially more than the entire state revenues of Rbs200bn.

The government charges that the Shatalin plan would cause social chaos - unemployment up to 20m, and rampant inflation. The radicals retort that both those evils are happening by default because of the steady disintegration under government management, and insist that the market, and alternative employment, will dampen down the pressures.

As for inflation, they know it will come, and even welcome it as a less painful way of price reform than an administered solution. They only hope that the credit squeeze will remove the explosive pressure.

Yet the key difference is that the Shatalin plan recognises, and seeks to exploit, the inevitable that power has already passed to the republics, and

the centre cannot hold. The question now is whether that centrifugal process can still be channelled into coherent reform.

The plan's success also depends on a crucial issue which Dr Abalkin also recognised as his biggest problem from the start: the question of confidence in the government.

In a devastating article in the weekly, *Literaturnaya Gazeta*, last week, the magazine's economics editor Mr Vladimir Sokolov put his finger on it: "A peasant will not take the land even free of charge (and all the more so for money) until he knows for sure that no one will ever confiscate his plot, his crop, and the whole of his property any more."

"A city resident will not put his savings... into any business of his own until he sees for himself that neither the racketeers will set a shotgun under his nose, nor the laws will be suddenly altered 'by some fool'."

A foreigner will not come to us with his technology until his investments are 100 per cent protected against any revolutionary expropriation."

In other words, any hope of successful reform requires stability of laws and economic ties, continuity of obligations by a succession of authorities, and protection from crime and social unrest - three things that Mr Gorbachev and all the republics (Mr Yeltsin included) have so far singularly failed to guarantee.

The Shatalin programme, drafted with the involvement of representatives from all the republics except Estonia, managed to get them all to agree that a common currency, a common financial system headed by a single (albeit federally-controlled) central bank, a common customs system and a single market, were essential prerequisites for reform.

Yet already the republican parliaments are calling that into question. Customs controls between Estonia and Leningrad suggest the battle has already been lost.

And then, who will implement the reforms? The bureaucrats only know how to run the old command system. There is a desperate shortage of qualified personnel in the republics. Even Russia, which has assembled an impressive, young and highly-qualified government, has no skilled civil service to back its endeavours.

"We have to overcome entrenched resistance in our rotten society," says Mr Nikolai Shmelev, one of the most outspoken independent economists. "Some 15m-18m people are engaged in the state supply (distribution) system. They are living on shortages. Quite objectively, these people are not interested in doing a good job, but in creating shortages. That increases the level of bribes."

Yet others are convinced that it will be impossible to move to a free economy by dictatorship. Professor Yevgeny Yasin, a key member of the Shatalin group, believes this is the last real chance to achieve economic reform through democracy.

On the positive side, the plan seeks to exploit the upsurge in energy and enthusiasm in the republics, fuelled by the rediscovery of national pride. It draws on a whole new generation in Soviet life: six of the 13 in the Shatalin group are under 40, three under 30.

Finally, the expectations of the Soviet people are low. That goes hand in hand with their lack of confidence in any government. But it does mean that prolonged depression may not necessarily produce a bloody revolution.

Both Professor Shatalin, and indeed Mr Gorbachev himself, look increasingly like classic figures of Greek tragedy. The former, a sick man, may not have the physical strength to survive his great crusade to reform the economy. And the latter, the man who has transformed the entire climate of international relations at the end of the 20th century, may equally not survive that process.

## Banks count their change

Those looking for evidence of the hard times being suffered by the world's bankers need look no further than the annual meetings of the International Monetary Fund and World Bank in Washington.

Usually at these gatherings the city's streets are clogged with the faintly ridiculous "stretch" limousines as bankers shuttle from party to party. But this year the city's car rental firms report a sharp drop in hirings, particularly of their top-of-the-line models, which they rent at up to \$70 an hour.

Bankers are tightening their belts and counting their change. Citicorp is saving money and is not holding its annual bash. Britain's Midland Bank is also adopting a lower profile. Its annual party is off, and Sir Kit McMahon is not hosting the usual press breakfast. It is not much fun for the free-lancers. Banks say they are being more selective, "targeting" the people they want to meet in more intimate groups. Bookings for private houses for hospitality at up to \$200 a week rentals are seriously down.

Evidence of economies too at the Commonwealth finance ministers meeting. The group decided it could not afford to hire its usual special plane to get to Washington from Trinidad. John Major, the Chancellor, and two of his aides managed to hitch a lift on the Canadian Air Force jet of Canada's Finance Minister, Michael Wilson. The rest of the Treasury entourage were forced to buy airline tickets.

### Porritt's time

At this year's Green Party conference in Wolverhampton the lack of clear leadership is more noticeable than ever. Of the party's 31 "speakers" appointed in August the best-known are adopting a low pro-

## OBSERVER

Sara Parkin, whose conference speech last year was lubricated with tears over the future of the environment, is not making a set-piece address. Nor is the less softly-spoken Jean Lambert, the party's spokesperson in Europe. David Icke, the former BBC sports presenter, is not at the conference. He is at home working on a book.

That leaves the stage clear for others to take the limelight - although of course, the party will not accept a single leader.

One candidate lurking in the wings at Wolverhampton is the telegraphic Jonathan Porritt, who stepped down from leading the Friends of the Earth group in June. Porritt, recognised as a powerful voice in green politics, is avoiding too much attention.

But should he want it, the opportunity to use his standing to shake up the party is there for the taking. "I think support for him would be almost unanimous," says one Green party official.

### Welling out

Curtis Welling, the high flyer and potential chief executive, who has just been fired from his job as head of equities at First Boston, the US securities house, was unlucky enough to be an intellectual in a tough, plain-dealing firm. Highly articulate, intelligent, and well regarded outside the firm, he seems to have got up some very important noses.

According to Radio Free First Boston (as the firm's gossip mill is affectionately called) Jack Hennessy, president and chief executive officer of CS First Boston, First Boston's parent, got tired of Welling taking up operating committee meetings with what he saw as quasi-philosophical speeches. More of a problem for Well-



"I'm too much in debt to enjoy these halcyon days before recession."

ing was the fact that Rainer Gut, chairman of the group, didn't get on with him. Gut is said to have given the New York staff instructions never to seat the two of them at the same table.

A few months ago Hennessy talked about Welling as a potential future head of First Boston. Welling's departure has clearly come as a shock to his colleagues.

### Knight school

Dr Indraprasad Patel, outgoing director of the London School of Economics, is celebrating the announcement that the Queen has approved his appointment as an Honorary Knight Commander of the Order of the British Empire. As an Indian citizen, Patel, who is known to staff and students at the school as "Iggy", cannot style himself Sir Indraprasad.

His predecessor, the distinguished German academic Sir Ralf Dahrendorf, got round that problem by taking British

citizenship after his appointment to the order.

However, Patel tells me that he has no plans to copy him. He says, "My roots are in India, and I am retiring to India, so I couldn't really do that. Although I am very fond of this country." He adds wistfully, "Perhaps dual citizenship would solve my problem."

Patel retires from the LSE at the end of the month. His successor is Professor John Ashworth, formerly vice-chancellor of Salford university.

### City analysed

Richard Fry, financial journalist, is a true Victorian. He was born in the old Queen's reign in 1900.

He is also a true Bohemian. His father ran a brewery in that central European land of fable before the modern state of Czechoslovakia was invented. Fry, who celebrated his 90th birthday in his London mews house yesterday with his wife Katherine aged 84, says he has finally retired. Yet he remains a canny observer of the financial, economic, and industrial worlds.

Of today's press coverage of business he says, "There is not a great deal of good analysis in the newspapers compared with the times when I was doing the job. In my opinion business writers now rely far too much upon the new breed of analysts working for City firms. They quote them instead of doing the research themselves."

He added a kindly rider, "I except the FT completely from that criticism, of course."

Fry became City Editor of the *Manchester Guardian* at the outbreak of war in 1939 and stayed in the job until he retired in 1955.

He joined weighing 10 stone and did not add a pound during his long years of service in spite of all those board-room lunches. He ate and drank carefully and reports, "In my time many of the City Editors died of over-eating."

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## An end to the years of plenty

After a decade of rapid growth, banks are scaling back their ambitions, writes David Lascelles

After a decade of strong growth banks are finally counting the cost of over-zealous lending and energetic international expansion. The depth of the problems were vividly illustrated last week by one of the world's best-known banks, Chase Manhattan, which announced it would be setting aside \$850m to cover bad loans and shedding 5,000 jobs.

The banking industry does not take crises lightly. In other industries, the presence of one weak member tends to ease the competitive pressure on the rest, but a troubled bank can infect the whole system by undermining confidence. After a summer which has seen mounting banking losses, sharp falls in bank share prices and the credit downgrading of many top banks, Chase's predicament is symptomatic of much wider problems.

For once, it is not only the trouble-prone US banking industry which is in difficulty. Japan's banks, whose rapid growth in the 1980s has made them the biggest in the world, are also under pressure from the 40 per cent fall in the Tokyo stock market this year, and the precariousness of the Japanese real estate market. In Europe, some banks, such as those in Germany, are having to bear the pain of worsening bad debts.

All this might have been tolerable were it not for the increasingly gloomy world economic outlook. With the Gulf crisis unresolved and the world's main central banks increasingly unlikely to relax their tight monetary policies in the short term, the prospect of prolonged high interest rates and further difficulties for banks looms.

"I don't want to seem too pessimistic, but the situation looks rather bad," says Mr Tomonori Naruse, the resident managing director for Europe of the Bank of Tokyo. "The fall in stock prices on the Tokyo stock market is reasonable. But once it starts, how far can it go? That's what worries me."

Many factors have combined to create this unsettling situation. Some are familiar and of the bankers' own making, such as over-lending to the notoriously boom-and-bust property industry.

Others reflect the intense competitive pressures of an overcrowded industry. Where other industrial sectors such as car manufacturing, chemicals or consumer goods have only a few dozen companies of world stature, the City of London alone houses more than 600 banks, two thirds of them foreign. Yet most of them are not

even creditworthy enough to be able to perform the most basic banking function of raising money more cheaply than the corporations to which they wish to lend.

These competitive pressures have been, if anything, sharpened by the efforts of banking supervisors to bolster the industry in the wake of the Third World debt crisis. The new capital standards introduced last year by the Basel-based Bank for International Settlements have added to banks' operating costs by forcing them to raise billions of dollars of new equity. This, in turn, has encouraged them to take greater risks to earn higher profits, such as financing leveraged buy-outs.

And there is unlikely to be much let up on the part of regulators. Supervisors are taking a tough line, telling banks that they must cut back their assets, even dividends, if that is the only way to get their balance sheets in order.

In the US, bank regulators are themselves under pressure not only to prevent a possible banking crisis but also to ensure that the costs of any collapse are not met by the Federal budget; the authorities' bail-out of the savings & loan industry is already clocking up huge bills.

Mr Alan Greenspan, chairman of the Federal Reserve, told Congress in July that he is proposing to tighten US capital requirements next year. Bank analysts at Merrill Lynch, the US stockbroker, calculate that such a move could force Citicorp, the largest US bank, to raise \$3.4bn in new capital. Banks will also have to bear a 50 per cent increase in their deposit insurance premiums.

This helps explain why Mr Thomas Labrecque, Chase Manhattan's chairman designate, prefaced last Friday's announcement with the words: "Today's operating environment is as difficult as any in the history of the global financial services industry."

But underlying these difficulties, there are also much deeper forces at work. Some banking industry analysts believe that the international



banking market could be reaching the final throes of the unprecedented but now unsustainable — expansion of the past two decades.

Banks have simply become too big, offering a too complex package of financial services. Although multinational banks operate worldwide offering a plethora of services, few of

**Chase Manhattan's predicament is symptomatic of much wider problems**

them can support such operations with enough management and financial strength. At the same time, the growth of capital markets and a broad expansion in the supply of other new financial products have made it possible for many corporations to finance their operations without recourse to banks. In Japan, this month, there has even been the bizarre spectacle of

banks trying to borrow money from their corporate customers in order to bolster their own balance sheets.

If the banking industry is really heading for a crisis, the tremors could well precipitate some big structural changes. This would be alarming but possibly healthy in the long run.

As Chase Manhattan's difficulties force it to retrench, it will be following a well-trodden path. Citicorp, Bank of America and Chemical have all retreated from overseas markets recently. All lost money on their overseas business last year.

"Globalisation" once a rallying cry, is now a dirty word. British banks, for example, have lost their appetite for aggressive international expansion, not least because their domestic profit margins are double their foreign ones. Only the Continental European banks are still expanding in foreign markets in a big way, taking advantage of the creation of the single EC market. But Deutsche Bank, one of the most active, has reached a

pause. "I think we have enough to digest for the time being," says Mr Hilmar Kopper, the chief executive.

As for the Japanese banks, the most important question facing them is whether their mounting difficulties will curb their international growth. Japanese banks' aggressive tactics in the 1980s, which saw their overseas assets growing by 30 per cent a year, contributed to the earnings problems of other banks. Japanese bankers in London, where Japan's banks have their largest overseas operations, suggest asset growth will now fall into single figures, with greater emphasis on profitability.

Another reaction to the excesses of the 1980s may be a rationalisation of products and services. Banks may simply revert to doing a few things they know well, particularly straightforward domestic banking where most of them still enjoy dominant market positions.

Mr Brian Pitman, chief executive of Lloyds Bank, the UK clearing bank which has made a virtue of putting profits before size, says: "It's a myth that diversity makes you stronger. It actually makes you weaker because you end up with a small market position and small returns."

In a new study of banking trends, analysts at Goldman Sachs, the Wall Street investment firm, predict that big commercial banks would have to start "unbundling" themselves if they wished to remain competitive. The specialist suppliers of financial services, they say, "have thrived because they can be a more efficient means of financial intermediation than a bank. By specialising in narrow product delivery, there tends to be a better grasp of costs, and more appropriate product pricing."

Some of the biggest structural changes may simply result in an overall reduction in the capacity of the industry. The 1990s could bring an unprecedented wave of bank mergers. There is already speculation that some of New York's largest banks will have to join forces. In Japan the process began with this year's merger of Dai-ichi Kōbō and Sanri to form the country's second largest bank.

The Basel standards may also hasten the process by squeezing out the weaker players — though in many countries banks have been protected by their regulators for so long that the mechanism for permitting them to go out of business in an orderly way is rusty from under-use.

John Plender, page 40

## Investment in the 1990s

### Cost of altering circumstances

By Maurice Scott

Imagine there is no inflation. On average, wages rise as employers invest and compete for labour. For a business producing the average consumer good, this rise in wages will tend to squeeze profits. If the business were merely maintained in constant physical condition, its profits and so the value of its assets would dwindle to nothing. But its owners' losses would be exactly matched by its workers' gains. Appreciation of workers' human capital would then be equal and opposite to depreciation of business assets.

If depreciation is entirely due to relative price changes, there must be an equal and opposite amount of appreciation somewhere else. If we exclude the government and take net depreciation for the business sector as a whole, the only possible gainers are workers (in a closed economy). Consumers neither lose nor gain with the retail price index constant. Depreciation transfers

income from businesses as a whole to workers as a whole. This explains why depreciation should not be deducted in measuring the contribution of investment to growth. But there is yet another reason why the benefits of investment have been underrated.

Another point of orthodox theory claims that without technical progress, diminishing returns would force the return on investment ever lower as capital accumulates faster than the growth of the labour force. The mistake here is to envisage capital accumulation as more of the same. But investment changes the world and so both creates and reveals new investment opportunities. The Channel Tunnel will, one hopes, do precisely that.

The creation of new investment opportunities means that the benefits of investment are, on average, much greater than the rewards to the investor. There is then no reason to sup-

pose that the initially faster growth which results when investment is speeded up will fade away.

Growth can then be described in this way: a business that invests is changing its economic arrangements, now much improvement results depends as much on the quality of the investment (and so on its management) as on its quantity. The same is true for the whole economy, with the additional point that the efficiency of the market system will greatly influence the average efficiency of all investment.

Each business reacts to the opportunities created by others, and, in turn, creates and reveals opportunities for them as well as for itself. By bidding against each other for workers, businesses drive up real wages and so transfer income from profits to wages. Any business which tries to opt out of this struggle for improvement will find that depreciation is causing the value of its assets to dwindle away. Like the Red Queen in Alice in Wonderland, it must run fast just to stay still. The growing wealth of the whole economy is shared out, and human wealth increases because of appreciation as well as through human investment.

Workers' gains are obtained at a cost. Someone must forgo consumption for investment to be possible. Workers may save, and lend to businesses, but another possibility is that wages may be restrained so that profits are larger. In the end, this sacrifice will redound to the workers' own benefit. Faster growth will result in more rapidly growing real wages, and so more appreciation of human capital.

In the British economy, there is a contradiction between the high level of profits needed for growth and the low level needed to stiffen employers' resistance to wage demands. Had the recovery in profits in the 1980s generated fewer wage demands and fewer concessions to them, there would now be less inflation, more profits, more investment, more employment and faster growth.

The author is a fellow of Nuffield College, Oxford.

## LETTERS

### Britain's shipping industry now truly international

From Mr Paul Slater

Sir, Your editorial comment ("Shipping's call for a lifeline" September 17) and the letters in response (September 20) serve to highlight the falseness of the arguments presented by Sir Jeffrey Sterling and his committee.

It is not the shipping industry in Britain that is in trouble but simply the number of ships flying the red ensign that is in abject decline.

The references to the size of the UK registered fleet are totally irrelevant when exam-

ining the enormous volume of earnings generated by the British shipping industry which by definition encompasses all shipping and shipping-related activities conducted in the UK, or those covered elsewhere in the world by British companies.

The maritime insurance, finance, legal and ship management activities in the UK are vibrant, expanding and totally international in their focus.

Fortunately the British shipping industry has become truly international and is no longer

dominated by old-fashioned, poorly managed shipping companies whose ancestral roots were more important than their industrial competitiveness.

There are broader arguments for the introduction of capital investment incentives across British industry enabling individuals to invest as well as to facilitate the transfer of investment from one industry to another. To single out British-flag shipping as a special case by repeating well worn strategic arguments will not wash.

What needs to be encouraged is the continued investment of money and labour in British-based shipping without the requirement to link this to the registration of ships under the UK flag. Any capital investment allowances that may be introduced should apply to all ships owned by British companies irrespective of their operational flag.

Paul Slater,  
Chairman,  
First International Capital,  
4 Park Place,  
St James's, SW1

### Towards a strategy for tackling unemployment in the 1990s

From Mr Peter Ashby

Sir, Your editorial comment ("Jobs for jobs" September 18) offers a formidable analysis of the growth of unemployment in the 1990s. Yet it fails to explain why government initiatives to tackle long-term unemployment have never quite lived up to expectations.

The conventional wisdom is that the main culprit has been the Treasury, for failing to deliver sufficient resources. But the more liberally minded members of the establishment also carry some responsibility for failing to agree to terms with the ways in which long-term unemployment can transform individuals' attitudes.

If a substantial rise in long-term unemployment is to be avoided, we must first acknowledge the emergence of a new underclass among the long-term unemployed, especially young, single males who are contemptuous of a system which they regard as out to push them into dead-end jobs. Training and Enterprise Councils must begin to create new "escalators of support" for low-paid workers to challenge the view that low-paid jobs constitute a ghetto from which there can be no escape.

Second, we must once and for all get over the political hang-up about schemes being voluntary. Experience in Full Employment UK (after discussing this with countless unemployed groups throughout the country) is that they generally have little difficulty with the idea that to choose something, so long as they have some real choice between training, education and temporary work.

Third, we should draw a leaf out of the example of training

credits for young people, and extend the principle of entitlement to very long-term unemployed people. There should be no further delay in piloting voucher and credit schemes for them. But they should not be restricted to "Employment Training" nor just offered on the basis that unemployed people can take it or leave it.

Choice, entitlement, and obligation — together these principles offer the underpinning for a concerted strategy to tackle long-term unemployment in the 1990s.

Peter Ashby,  
Full Employment UK,  
79 Prince George Road, N16

From Mr Denis MacShane  
Sir, What a contrast between the common sense in your editorial comment on the need for a complete rethink on British labour market policies and the frankly buffoonish comments of Mr Eric Forth, the British minister responsible for underpinning European Community policy on labour affairs, as profiled a few pages earlier ("American dream for Brussels").

I yield to few in my admiration of the vitality of the US but not even the most rosy-eyed can avoid seeing the negative consequences of the US labour market. These include a huge loss of skilled workers, a reduction in well-paid jobs, a need to maintain living standards and a regional and racial weighting of unemployment with horrid social consequences. The worst of the Third World co-exists uneasily with the best of the First World in America and, although there is a ladder between the two, not many get to climb it.

Britain went far down the American road in the 1980s abolishing many labour market controls and unemployment went down temporarily. Easy credit on offer for electoral reasons, much like President Reagan's Keynesian priming of the economy through arms expenditure, helped create British jobs. Now to curb inflation the taps are turned off and unemployment is shooting upwards with worse to come.

Thus the American labour market model has not worked in Britain and almost certainly cannot work in Europe except at the price of accepting its disadvantages. A modern British (and European) labour market policy is one of the great unsolved — and not much discussed — items on the current political agenda. Would that British ministers addressed it with serious thought instead of silly slogans.

Denis MacShane,  
International Metalworkers Federation,  
54 bis route des Acacias, Geneva

From Mr Roy Grantham  
Sir, Commenting on the output recovery in 1982, your editorial says that "the rapid productivity gains of the 1980s were translated into higher real wages for employed 'insiders' and higher profits for the shareholders" rather than increased employment.

In 1982 employers were recovering from a position where 20 per cent of employment in manufacturing industry had been destroyed "at a stroke" by the government pricing British goods out of foreign and domestic markets through an absurd over-valuation of the currency.

In the face of this, employers



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**INSIDE**  
**Laying up in the convertible haven**

Investors were unhappy last week when UK convertible bonds, traditionally regarded as a haven against stock-market downturns, provided only limited protection against the slide in equities. None the less, as Tracy Corrigan reports, some investors regard the bonds as a good way to benefit from any closing of the yield gap between equities and gilts. Page 30

**Correction: Brent Walker**

Friday's Financial Times contained an error in this summary column. The report that Peat Marwick McIntosh, the accountants, had quit as auditors to Brent Walker was incorrect, as the fuller story on page 24 made clear. In fact, Peat Marwick have withdrawn their services from Brent Walker only in respect of a disputed transaction with Grand Metropolitan, and remain its joint auditors. The FT regrets the error, which was based on an incorrect news agency report.

**A shake-up in waste**

Bids last week in the fast-growing UK waste management industry would be successful - swallow up two of the six quoted companies in the sector. The reason is the rising value of holes in the ground. Page 26

**Flat first half at Indosuez**

The weakness of the dollar, poor stock market conditions and more difficult credit conditions have resulted in Banque Indosuez, the merchant banking subsidiary of France's Suez group, reporting flat first half profits. Despite the deterioration of conditions since the Gulf crisis, however, Mr Antoine Jeancourt-Galignani, chairman, (above) says he hopes to maintain full year results in the region of 1989's FF1.03bn. Page 27

**The root of bank stock jitters**

Recent share price setbacks for Chase Manhattan, for Midland Bank, and for the Industrial Bank of Japan raise the question: why are the stock markets now so nervous about the banks? John Plender explores the subject. Back Page

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**Economics Notebook**

**Praise in Trinidad trouble in Washington**

Peter Norman reports on a mixed week for the UK chancellor

LAST week was one of mixed fortunes for Mr John Major, the UK chancellor. His unveiling of a four point plan to help the poorest, most heavily indebted countries at the Commonwealth meeting in Washington, Trinidad earned him fulsome praise and instant popularity among his fellow ministers, most of whom were from the Third World. After hitching a lift to the International Monetary Fund meeting in Washington with Mr Michael Wilson, the Canadian Finance Minister, he was plunged on Friday into a ministerial crisis and new controversy about Britain's eventual entry into the exchange rate mechanism of the European Monetary System.

The Chancellor has long insisted that there should be no doubt about his intention to take Britain into the ERM when he is satisfied that the conditions are right. It is little wonder, therefore, that his questioning about the EMS. But last Friday he added a little to the debate about whether Britain enters the ERM by underlining the importance of future relative inflation rates.

"What really matters, is what happens from now on," he said. "The rise in oil prices is affecting both our inflation rate and that of our European partners. In some ways we are better placed than others to handle oil price rises."

The latest edition of the IMF's World Economic Outlook gives some idea of what the Chancellor meant. It projects a sharp fall in UK consumer price inflation from August's 10.6 per cent level to just above 5 per cent by the end of next year.

Over the same period, the IMF sees Germany's rate moving up from under 3 per cent to

**Fed decision on J.P. Morgan attacked**

By Peter Riddell, US Editor in Washington

THE US Federal Reserve's far-reaching decision to allow J.P. Morgan, the New York commercial bank, to underwrite corporate equities has been attacked by Congressional leaders as an attempt to circumvent and preempt the legislature's review of possible banking reforms.

The Fed's decision is one of the most fundamental since the Glass-Steagall Act of 1933 split investment and commercial banking in the US.

It comes at a time of increasing alarm in Washington about the financial problems of many banks, and about the severe strain on the Federal fund which insures bank deposits. Moreover, both the Bush administration and Congress have been considering fundamental reforms of the banking structure to be included in legislation next year.

Responding to the concerns of the influential securities industry lobby, Congress has for a long time resisted repeal of Glass-Steagall even though it has been eroded in practice.

Congressman Henry Gonzalez, the Democratic chairman of the House Banking Committee, which will play a large part in any banking legislation next year, argues that it is "irresponsible for the Fed willy-nilly to add massive new risks to the banking system at a time when the taxpayer supported insurance fund is strained to its limits."

The congressman, who once unsuccessfully sought to impeach Mr Paul Volcker, the former Fed chairman, accused the central bank of attempting to make new law.

Other powerful committee chairmen, including Congressmen John Dingell of Energy and Commerce, have also opposed allowing banks into the securities area.

Moreover, last week the General Accounting Office, the Congressional watchdog agency, last week urged that powers should not be expanded for any banking institution until the insurance fund is put on a solid footing and regulators could credibly demonstrate the ability to oversee and adequately enforce safety and soundness standards.

In the light of the hugely expensive and unpopular savings and loan rescue, Congress is determined to avoid any repetition in the banking industry which might result in a similar call on taxpayers. Consequently,

legislation giving the Federal Deposit Insurance Fund freedom to levy whatever premiums on banks it sees as necessary to maintain the solvency of its fund was last week rushed through the House of Representatives and will this week be considered by the Senate.

A wide-ranging debate is under way within the administration, Congress and the banking industry about possible reforms. The Treasury and the Federal Reserve are considering retaining the present deposit system in a modified form - possibly limiting the \$100,000 guarantee to each individual rather than on each deposit - and stressing the need to increase capital requirements to match risks and an extension of bank powers.

The Glass-Steagall Act, a

response to the post-1929 financial crash and the depression, has partially lost its force in recent years. In particular, in January 1989 the Fed gave commercial banks the power to underwrite corporate debt and hinted at an extension to equities.

The immediate impact of last week's decision will be limited since J.P. Morgan is one of the strongest US banks and the change is limited since the bank will be allowed to derive no more than 10 per cent of its revenues from underwriting corporate equities, debt and related securities. Moreover, the securities business will be separate from the rest of the bank with its Federally insured deposits. Mounting problems for the banks, Page 23, John Plender column, Back Page.

**Piecing together the £1bn marriage**

David Lascelles looks at the progress of Morgan Grenfell's integration with Deutsche Bank

ONE of the most closely watched marriages in the international banking business is that between Deutsche Bank and Morgan Grenfell.

But nearly nine months after Germany's largest commercial bank bought the City of London merchant bank for close to £1bn (\$1.8bn), there is little for the outside world to judge it by: no big cross-border deals or joint financings, not even any tell-tale changes in management.

The only obvious evidence of progress was the establishment in Frankfurt this summer of Deutsche Bank Morgan Grenfell, a consultancy specialising in mergers and acquisitions.

But the outward appearance belies some of the work that has been done behind the scenes to mesh the two banks' operations. "I think we have made good progress in trying to put things together," says Mr Hilmar Kopper, Deutsche's chief executive. "Co-operation is good. People talk to each other - have quite a bit of respect for each other."

Deutsche's master plan is to have Morgan spearhead its move into the merger and acquisition (M&A) business worldwide, and provide investment banking support for the rest of the group.

Craven is a subsidiary of Morgan Grenfell rather than Deutsche, Morgan's other strength - fund management - is also to be allied to Deutsche's to form one of Europe's largest fund management groups.

But the challenge is to bridge the two banks' vastly different cultures, and the process is potentially distracting events like the unification of Germany and the slump in the investment banking market from getting in the way - all things which scap-

tical competitors expect to be stumbling blocks.

A series of meetings and week-end conferences has been organised to bring Morgan and Deutsche staff together. Mr John Craven, Morgan's chairman, has toured Deutsche's German network making presentations to its regional boards and top executives. He himself has become a member of the main Deutsche Bank board, a post for which he had to learn to speak German.

But so far, more seems to have happened at the German end than the British. While Mr Kopper says his bankers have welcomed the arrival of the merchant bankers from the City, Mr Craven admits his own people have been slower to promote the services of their new parent. "It's a matter of education," he says. "Achieving the proper level of cross referrals will take a great deal of time."

Mr Kopper emphasises that Deutsche Bank is sensitive to a merchant bank's need for independence. "We don't want to blend the cultures into a new average. In traditional merchant banking, people think, talk and write English."

Mr Craven says Morgan's new status has obvious advantages. "But the reality is that we have not lost a single person of importance. We have gained clients and lost none. Enthusiasm has been sustained. The business has become a pleasure to learn to manage conflicting interests. For example, Deutsche Bank is one of the lead lenders to Eurotunnel, but Morgan finds itself on the other side of the fence advising the troubled company on its new rights issue."

Mr Craven says: "Deutsche Bank have been most supportive. But I don't pick up the phone to them and ask them what to do." Says Mr Kopper: "We made it clear one side should not rely on the other side being pushed into it."

Morgan is also advising Continental, the German tyre maker in its proposed alliance with Pirelli. Deutsche Bank is one of Continental's largest shareholders with 5 per cent, and says it is taking a "neutral" stance.

Two events would not have happened without Deutsche Bank's support, Mr Craven believes. One was Morgan's new trans-Atlantic corporate finance alliance with Gleacher & Co, a New York M&A specialist firm formed by Eric Gleacher, the former head of international M&A at Morgan Stanley. The other was Morgan's hiring of the complete 50-strong asset trading team from Libra Bank, the former consortium bank. "They came to us because we are a stable organisation with access to a substantial portfolio of assets," he says.

Even so, Morgan's performance this year will be disappointing because of the fall-off in merger business, Mr Kopper says. "That doesn't worry us. We didn't take this investment to judge it by the first year's result."

What sort of a return is he looking for? "We want a direct return that is reasonable compared to other investments we could make with the money." He stresses the worst direct return in direct benefits of the merger will be hard if not impossible to measure, he says.

But where will the direct benefits come from? The creation of the single market in Europe is

seen as a big potential source of business as whole industries shake down into new structures. The deregulation of the German fund management business, in particular the introduction of funded pensions, should give big scope for Morgan's fund management expertise.

And the modernisation of East Germany should spur demand for Morgan's corporate finance skills. DBMG is planning to open an office in Berlin. There are 6,000 companies for sale in East Germany, says Mr Kopper. "We are the most active bank in that country and we have access to virtually all of them. This should not be a closed-shop German thing. Morgan can do a valuable job."



Putting things together: Hilmar Kopper (left) and John Craven

**Stake in Murray Johnstone for sale**

By Andrew Botger in London

MURRAY JOHNSTONE, one of the UK's largest independent fund managers, is seeking a buyer for a 9.4 per cent holding in the group - and would be ready to offer a bigger stake to the right purchaser.

The unlisted group, based in Glasgow, is trying to place the 9.4 per cent stake currently held by Kemper Financial Services of Chicago, one of America's biggest and fastest growing mutual fund managers.

Kemper bought its stake in the Scottish group's parent company in 1987. Murray Johnstone and Kemper ran a joint venture operation from 1980, managing the international investment funds of US pension funds. But this was wound up 18 months ago.

Mr Nicholas McAndrew, managing director of the Murray Johnstone parent company, denied a report that the whole group was up for sale. However, he said the right sort of purchaser could be offered more than the Kemper stake.

Murray Johnstone, which has funds of some £4bn under management, could prove attractive to a European bank or overseas buyer keen to establish a foothold in Europe.

In the last two years several leading UK fund management businesses have been bought by European financial service groups. Dresdner Bank paid £25.5m (\$45.4m) for Thornton Investment Management in June, 1989, and Bank in Liechtenstein bought GT Management for £91.5m at the beginning of 1989. Last year also saw Societe Generale secure Touche Renneff for £50m and in March Banque Indosuez paid £154.8m for Gartmore Investment Management.

Mr McAndrew said that while Murray Johnstone might be attracted by an overseas bank with a large number of branches, the prospective buyer need not be a bank or indeed from overseas. Murray Johnstone was keen to expand its international business and would be interested in working with any partner which could bring a large amount of money for it to invest.

About 70 per cent of the shares in Murray Johnstone's parent company are held by Murray Income, Murray International, Murray Smaller Markets and Murray Ventures. The remaining 30 per cent of shares are held by directors and other members of staff. The search for a buyer is being conducted by Phoenix Securities, the subsidiary of the merchant bank Morgan Grenfell which specialises in financial institutions.

**Banks mull \$51m loan to Goodman**

By Kieran Cooke in Dublin

A GROUP of 33 banks owed more than £450m by Goodman International are due to decide today whether or not to decide today whether or not to provide a further \$51.7m of emergency working capital to Ireland and Europe's biggest beef processor and exporter.

If the additional funds are not forthcoming the Examiner appointed to oversee Goodman International's affairs would be forced to either look elsewhere for cash to cover costs during the present cattle slaughtering period, or close the company's operations.

Mr Larry Goodman, head of Goodman International, has apparently agreed that other privately held assets be brought under the Examiner's control. However, some banks have made it clear that they have lost trust in Goodman and are likely to advance strong arguments against any further funding for the group at today's meeting between bankers' representatives and the Examiner.

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## COMPANIES AND FINANCE

## Cluff Resources to raise £11m via Zimbabwe flotation

By Kenneth Gooding, Mining Correspondent

CLUFF RESOURCES, the US-listed gold mining company, is to float 15 per cent of its subsidiary in Zimbabwe to raise \$252.5m net (\$11m).

Terms of the float, fully underwritten by Standard Chartered Merchant Bank, Zimbabwe, value the subsidiary at \$78m compared with the value of \$36m placed on Cluff as a whole in the London market.

Mr Algy Cluff, chairman, said he believed it was the first time a foreign company had listed on an African stock market (outside South Africa) for 30 or 40 years.

Cash raised from the flotation will be retained in Zimbabwe, eliminate Cluff Zimbabwe's debt, leave it with about \$250m of cash and a further \$250m of financial facilities.

This will enable exploration and expansion plans to be

speeded up and could also be used to seize other mining opportunities as they occur.

Parallel with the Zimbabwe flotation, expected to become effective not later than October 16, Cluff will move from the USM to a full listing.

Cluff has also reported a 28 per cent improvement in taxable profits for the half-year to June 30, from £790,000 to £1.01m.

Gold production in Zimbabwe was up 18 per cent on the same period last year to 34,608 troy ounces. Cash operating cost of production (which excludes interest and depreciation) equated to about US\$253 (\$252) an ounce. The gold was sold for £228 an ounce, against £231.

As before, there is no interim dividend but Mr Cluff said the company expected to pay a final.

## All-round growth lifts Liberty 24%

Although gross profit margins were much in line with last year, heavier operating expenses left Taveners, the Liverpool-based confectionery maker, £78,000 in the red for the first half of 1990, compared with a £138,000 pre-tax profit last time.

Mr William Taveners, said the company ran into unforeseen production problems associated with the start-up of a new product which was not only costly in itself, but led to production inefficiencies and shortage of supply at a crucial time.

In August, a serious mechanical failure on the marshmallow plant resulted in Taveners being totally out of stock for three weeks and the wastage of much product. Mr Taveners said in view of lost sales and the cost of remedying these problems, the company was likely to show a full year loss.

First-half turnover was £5.64m (£5.13m). There was again no tax and loss per share came to 2.7p (4.77p earnings).

## Taveners £78,000 in red midway

However, much is non-banking, such as leasing and insurance, and so outside the scope of banking regulators, in the same way as the Atlantic City players leasing business which brought B&C to its knees.

Cukurova expects most of the £100m in BCMB which belongs to private depositors to be withdrawn as soon as the bank, which is in administration, is allowed to re-open. To cope with this liquidity problem, it is planning to sell off part of BCMB's loan book, as well as putting in place a line of credit as a backstop. It also intends to seek the continued support of the banks which are BCMB's creditors.

Cukurova has been given exclusive negotiation rights until the middle of October, and hopes to complete its acquisition by the end of the year. A review of the loan book has revealed the need for a higher level of provisioning against property loans, said Mr Araz.

## Turkish group plans to change BCMB name

By Richard Waters

CUKUROVA Group, the Turkish group seeking to buy British & Commonwealth's Merchant Bank, intends to change the bank's name to end associations with the collapsed UK financial services group, a senior executive said.

In an interview, Mr Melih Araz, president and chief executive of Interbank, a subsidiary of Cukurova, said the new name had not yet been decided but would reflect its image as a British merchant bank, rather than its new Turkish parentage.

Cukurova, which expects to pay £40-£50m for the bank, will use its acquisition to help raise funds in London for Turkish companies, said Mr Araz. It would strengthen BCMB's syndications and corporate finance areas, while dropping its private banking division.

Mr Araz attacked suggestions that the Bank of England might be unwilling to authorise Cukurova to own a UK bank on the grounds that it is a diversified industrial group and, as such, was a more risky parent than a bank. Half the group's profits and 80 per cent of its assets were in the financial area, he said.

Mr Araz attacked suggestions that the Bank of England might be unwilling to authorise Cukurova to own a UK bank on the grounds that it is a diversified industrial group and, as such, was a more risky parent than a bank. Half the group's profits and 80 per cent of its assets were in the financial area, he said.

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Cukurova has been given exclusive negotiation rights until the middle of October, and hopes to complete its acquisition by the end of the year. A review of the loan book has revealed the need for a higher level of provisioning against property loans, said Mr Araz.

## The bigger players now rationalising

David Thomas on the changing trend of takeovers in the waste management industry

BRITAIN'S fast-growing waste management industry seems determined to buck the trends. Amid all the talk of recession, it is booming. With takeover activity at a low ebb, the sector is beset by mergers and acquisitions.

Until now, takeovers in the industry have tended to take one form: small private companies have been swallowed by one of the industry's larger players. But last week the rationalisation moved into higher gear.

On Tuesday, Leigh Interests made an all-paper recommendation offer for BT Hughes, which valued the USM-quoted company at \$33m. On Friday morning, Severn Trent, one of the privatised water companies, launched a £78m hostile cash bid for Caird, and later in the day lifted its stake from 3.1 to 23.9 per cent.

If both bids go through, two of the six UK quoted waste management groups will disappear into larger concerns. And they will do so at what, by the standards of most sectors, would be generous prices: Severn Trent's bid values Caird at 21.8 times its forecast profits for 1990, while Leigh's offer represents a multiple of 26 times Hughes's earnings in the year to February 1990.

Why is such an unglamorous industry so highly rated? What is driving this rash of acquisitions?

For an answer to both questions, consider the value of holes in the ground - particularly when they come complete with planning permission for use as waste dumps, known euphemistically in the trade as "landfill sites".

Most of the UK's fast growing waste mountain is dumped in landfill sites, yet waste management companies have to

VALUE OF LANDFILL SITES		
COMPANY	CAPACITY (m cu m)	VALUE (£m)
Shanks & McEwan	80	220-280
Leigh	80	100-125
Caird	80	90-120
Atwoods	30	80-90
HT Hughes	15	34-45

Source: Citicorp

jump over higher hurdles to win planning permission for the dumps. The inevitable result is higher site values.

Mr Edmund Bradley, an analyst with Citicorp, says, for example, that Shanks & McEwan paid less than £1 a cubic metre in 1986 when it acquired land rights in the south-east of England from Hanson, the industrial conglomerate. Mr Bradley now values Shanks & McEwan's sites at £2.75-£3.50 a cubic metre.

Mr Bradley has attempted to estimate the medium term value - after development costs have been incurred - of companies' landfill holdings (see table). He has concluded that the main value of most companies' lies in these sites. The exception is Atwoods, most of whose operations are overseas.

However, there is another side to the equation: higher environmental standards are forcing up costs. Many smaller outfits, technically and financially unable to keep up with the leaders, have sold out.

Leigh, for example, completed nine acquisitions for a total of £24.5m in 1988-90, while Shanks & McEwan has made over 20 since its Hanson deal, nearly all of them small.

"It really isn't a business for the small company any more...it's becoming like the US, where waste management is a professional industry for the big player," says Mr Roger

Hewitt, managing director of Shanks & McEwan.

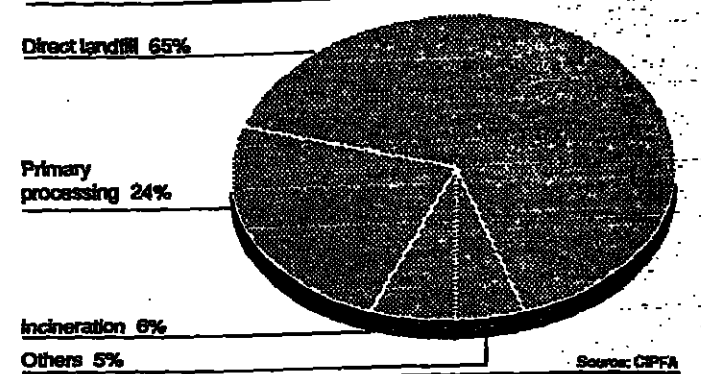
The Environmental Protection Bill will intensify this trend after it becomes law this autumn. Not only will it entail still higher standards for waste management companies, it will also place new requirements on waste producers. The latter are likely to turn increasingly to established high quality waste managers to take the problem off their hands.

They will find plenty of companies queuing for their business besides the quoted waste management groups. Several industrial conglomerates now have thriving waste management arms.

The main players include Biffa, a subsidiary of BT; Cleanaway, a GKN-Brambles joint venture; Cory Waste, owned by OTT; and Waste Management Ltd, which is owned by NRC and is distinct from the US company of the same name.

The water industry wants to diversify into waste management, as is evident from Severn Trent's bid for Caird. Northern, Thames, Welsh and

## Methods of waste disposal



Yorkshire water companies already have waste management subsidiaries; some observers expect others to follow.

Companies from North America and continental Europe are also showing an interest. Waste Management Inc and Browning-Ferris Industries, the two leading US waste companies, Canada's biggest waste group, and French companies such as Saur are all either active or seeking to become established.

There are still plenty of smaller fish for them to swallow. The highly fragmented industry contains over 2,500 companies, mostly tiny and local, according to the National Association of Waste Disposal Contractors. The intriguing question is whether the larger players will continue to rationalise.

Mr Hewitt believes so: "I suspect there's going to be further rationalisation. One or two of the subsidiaries of conglomerates will be disposed of by their conglomerate parents."

By contrast, Mr Bradley says the conglomerates would be unwise to quit the business: it is both more profitable than many of their core activities and its value is set to rise. He predicts instead attempts to realise some of the value locked in the subsidiaries by partial flotations or joint ventures.

The Gulf-induced market decline, together with Caird's unexpectedly poor performance earlier this month, have knocked some of the shine off share prices in the sector. But most industry observers believe this to be a temporary setback: waste looks set to be one of the trendier industries of the 1990s.

## Dinkie Heel shortfall

TAXABLE PROFITS at Dinkie Heel, the supplier of components to the footwear industry, fell by £86,000 to £172,000 in the first half of 1990.

The company blamed the harsher economic climate for the shortfall, but pointed out that the pre-tax figure had only fallen slightly compared with the £180,000 achieved in the second half of 1989.

## Dairy Farm Intl. climbs to \$78.6m

Dairy Farm International Holdings, the Hong Kong-based food products and dairy farm group, increased taxable profits from US\$68.3m to \$78.6m (\$42m) for the six months to June 30.

Turnover rose to \$1.4bn (\$1.18bn), with operating profit at \$54.6m (\$47.9m). Tax took \$13.8m (\$13.2m). Earnings per share emerged at 3.55c (3.11c). An interim dividend of 1.55c (1.15c) is declared.

Source: FT Mergers & Acquisitions International

Intensive deals driven by industrial logic dominated the week, writes Brian Wallis. Investors target particular cars with securities when discussing the proposed from Pirelli Tyre to merge with West Germany's Continental. The Anglo-German use of words like takeover, bidder and target is inappropriate, they say. This is a merger with no cash element. The deal - the industry's last major restructuring - would leave Continental as the surviving entity, with its fourth place in the world league of tyre makers. If it goes ahead, Pirelli will provide the chief executive of the new company and have ultimate management control.

Touching a raw nerve in Scotland & Newcastle's planned cash purchase of the controlling 40 per cent of Center Parcs. Taking full control of the upmarket holiday village operator might make strategic sense but it is a sensitive issue. When SAM bought its original 60 per cent stake a year ago, it promised not to increase its holding for three years.

Transatlantic battle was heavy. West Germany's leading maker FAG Kugelfischer is expanding its US operations by buying Connecticut-based Barden, a small specialist in precision ball bearings. UK builder Biffa also targeted major expansion with its second US buy. The P&O publisher's cash purchase of general contractor McDewitt & Street will double its US turnover.

French oil major will complete its diversification outside winter sports by buying Roger Cleveland, a small US golf club maker.

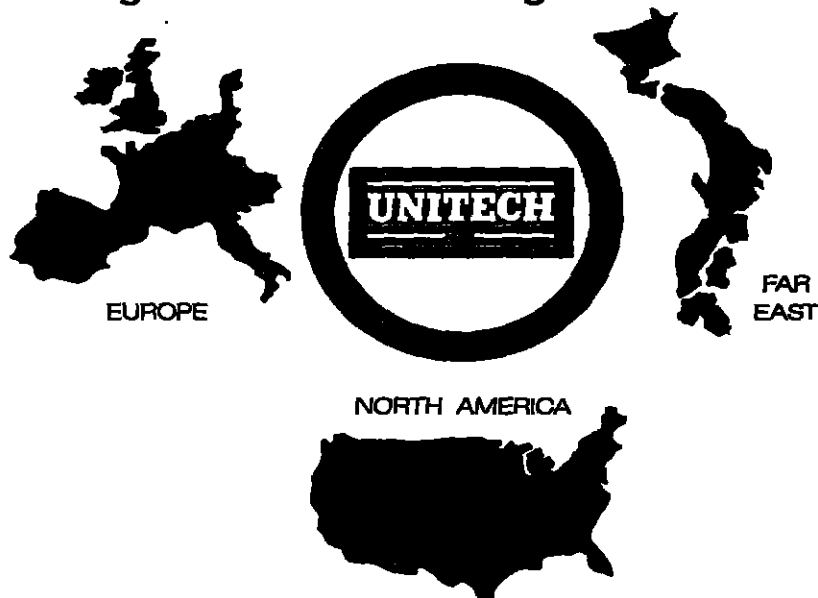
Interplay of the US acquired the City with its offer for Lowe Group, one of the UK's leading advertising agencies. Interplay, which already holds 42 per cent of Lowe, said the acquisition offers a great opportunity to give Lowe the money it needs to expand internationally.

LAST WEEK'S CROSS BORDER DEALS					
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT	
Pirelli (Italy)	Continental (W Ger)	Tyres	N/A	Pirelli offers marriage	
Scottish & Newcastle (UK)	Center Parcs (Netherlands)	Holiday villages	£180m	Bid for 40% outstanding	
Robert Maxwell (UK)/Berlinsmann (W Ger)	Berliner Verlag (E Ger)	Publishing	£85-£100m	Buyers taking half each	
Interplay (US)	Lowe Group (UK)	Advertising	£75m	Surprise bid for agency	
FAG Kugelfischer (W Ger)	Barden (US)	Ball bearings	£70m	US expansion; huge premium	
Star Enterprises (US)	Florida store chain (US)	Retailing	£43m	Australia's Panfide sells	
Bovis (UK)	McDevitt & Street (US)	Construction	£27.5m	US expansion for P&O unit	
Ueiner Seclior (France)	ASD (UK)	Steel distribution		Green light for 20% stake	
Eurocom (France)	Creamer Dickson Intl (UK)	Public relations	£10.75m	UK's Aggie streamlines	
Rossignol (France)	Roger Cleveland Golf (US)	Golf clubs	N/A	Ski maker diversifies	

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	Year to 31st May 1990	Year to 31st May 1989
Sales	£291.5m	£269.2m
Profit before tax	£26.2m	£22.1m
Net assets	£61.3m	£56.6m
Pre-tax return on net assets	43%	39%

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For the interest period from September 19, 1990 to December 19, 1990 the Note Rate has been determined at 15.5075% per annum. The interest payable on the relevant interest payment date, December 19, 1990 will be £3,573.46 per £100,000 nominal amount.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

September 24, 1990

**SRF Mortgage Notes 1 PLC**

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March 2021

For the interest period 20 September 1990 to 20 December 1990 the Class A notes will bear interest at 15.175% per annum. Interest payable on 20 December 1990 will amount to \$3,774.01 per \$100,000 note. The Class B notes will bear interest at 15.875% per annum. Interest payable on 20 December 1990 will amount to \$4,544.00 per \$100,000 principal amount outstanding.

Agent: Morgan Guaranty Trust Company

**JPMorgan**

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In accordance with the conditions of the notes, notice is hereby given that for the three-month period 20th September 1990 to 20th December 1990 (91 days) the notes will carry an interest rate of 13.175% p.a. Relevant interest payments will be as follows:

Notes of \$5100,000: A\$8,264.58 per coupon.

**THE SANWA BANK LIMITED**

Agent Bank

This advertisement is issued in compliance with the Regulations of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. It does not constitute an offer or invitation to subscribe for or purchase shares. Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the whole of the Ordinary Share capital of Standard Platforms Holdings PLC in the United Securities Market. It is emphasized that no application has been made for these securities to be admitted to listing.

## Standard Platforms

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of

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Arrangements for an overseas offering in the United States of America are being made with Marché Securities, Inc. Application has been made for a listing of the New Ordinary Shares of the Company in the United States of America on the NASDAQ System (proposed symbol SPFH-F) and The Pacific Stock Exchange in California, USA (proposed symbol STP).

Authorized	Share Capital	Issued and to be issued
£450,000	in Ordinary shares of 10p each	fully paid £368,200

The principal activity of the Group is the supply of computer hardware and software and the design and development of data and image storage and retrieval systems.

Particulars of Standard Platforms Holdings PLC are included in the Companies Fiche Service available from The Stock Exchange and will be available through the Exel Unlisted Securities Market Service. Copies of the particulars may be obtained during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 26th September, 1990 from the Company Announcements Office of The International Stock Exchange and up to and including 8th October, 1990 from:

Rickett & Co Limited	Standard Platforms Holdings PLC	Marché Securities, Inc.
3-5 St. John Street	Glenfield Park	Renaissance Square
London EC1M 4AB	Northrop Avenue	512 Nicollet Mall
	Blackburn	Suite 400, Minneapolis
	Lancashire BB1 5QF	Minnesota 55402, USA

UBS Phillips & Drew Securities Limited and Winterflood Securities Ltd have indicated they will be the market makers in the UK. It is anticipated that dealings will commence at 2.30 pm London time on 3rd October, 1990.

24th September, 1990



## COMPANIES AND FINANCE

## Banque Indosuez shows flat first half

By George Graham in Paris

BANQUE Indosuez, the merchant banking subsidiary of France's Suez group, has reported flat first-half profits in the face of the weakness of the dollar, poor stock market conditions and more difficult credit conditions.

The bank reported net profits of FF1512m (\$36m), 2 per cent higher than in the same period of 1989, with lower banking income - down 1 per cent at FF144bn - offset by a reduced tax charge.

Despite the Gulf crisis, Mr Antoine Jeancourt-Gallignani, Indosuez's chairman, said he hoped to maintain full-year results in the same region as 1989's FF1.03bn.

Indosuez's results have been affected by the weakness of the dollar, which accounts for around 35 per cent of its balance sheet, and by the fragility of world stock markets, especially Tokyo, where its broking subsidiary W.L. Carr has had to reduce its costs.

In addition, Mr Jeancourt-Gallignani said credit quality had worsened in countries such as the UK, the US, Australia and Belgium, and the bank had more than doubled its client risk provisions to FF290m in the first half.

Lending margins also narrowed, especially in France, where the reform of buyer's credit rules two years ago is beginning to have an impact on the market.

Indosuez had put aside

FF290m in provisions against loans to customers in the six months, up from FF153m a year earlier. Mr Jeancourt-Gallignani said higher reserves had been needed for loans in France, the US, Britain, Belgium and Australia.

Indosuez's Middle Eastern subsidiary, Bank al Saudi al Fransi, doubled its first-half profits. The effect of the Gulf crisis on Indosuez's full-year profits is estimated at around FF50m.

## Hachette is offered control of La Cinq

By William Dawkins in Paris

HACHETTE, the leading French publisher, has been offered effective control of La Cinq, the loss-making private television channel, in what looks like the last chapter in an 18-month battle for supremacy between some of Europe's main media barons.

The channel's current chairman, Mr Robert Hersant, owner of the right-wing Le Figaro newspaper, has asked the CSA, the French broadcasting industry authority, for permission to reduce his stake and allow Hachette and its backers to take the pole position.

Mr Hersant's long-remembered decision comes nine months after he made a peace deal with Mr Silvio Berlusconi, the Italian television magnate who had tried to wrest control of the channel in one of the most acrimonious disputes in the volatile world of French broadcasting.

If accepted by the CSA, this will be the realisation of a dream for Mr Jean-Luc Lagardère, Hachette's chairman, who unsuccessfully tried to get control of TF1, the leading private channel on its privatisation three years ago. The CSA will consider the proposal under anti-monopoly rules, which could take a month, given Hachette's size.

The publishing group reported an increase in turnover from FF24.4bn (\$4.6bn) to FF29bn last year, on which net profits rose by 43 per cent to FF469.3m.

Mr Hersant has given no reasons for wanting to reduce his stake, but La Cinq has lost FF2.2bn since its launch in 1987 and has seen its audience share slip from 12 per cent to just under 11 per cent over the past year - mainly to the benefit of France's two public channels.

Mr Hersant proposes to reduce his own stake from 25 per cent to 10 per cent, while his chief ally, Mr Jean-Marc Vernes, the leading banker, would reduce his from 22 per cent to 4.1 per cent. This would open the way for Hachette to advance from its existing 22 per cent to 25 per cent, while three bank shareholders loyal to Hachette would buy another 20.1 per cent. Mr Berlusconi, meanwhile, would keep his existing 25 per cent stake unchanged.

No single shareholder can own more than a quarter of television channel's equity under French broadcasting law, which explains why La Cinq's ownership has been vulnerable to upheaval.

Hachette bought into La Cinq in a shareholder reshuffle last May, making its first investment in television, to add to the several radio stations and television production companies it owned.

## Chase AMP forecasts deeper losses

CHASE AMP Bank, bailed out over the weekend by its two parent companies, said its losses would deepen in 1990 due to a string of corporate collapses and the slowing Australian economy. Reuter reports from Sydney.

Chase AMP, one of 15 banks which have licence to operate in Australia, said it had received an A\$80m (US\$66m) capital injection from its parents, Chase Manhattan of the US and the Australian Mutual Provident Society.

"This additional capital is evidence of the confidence of both partners that over time we will build a profitable bank in Australia," said Sir James Balderstone, Chase AMP chairman.

"The general deterioration in the Australian economy and the concern that we currently have with some of our corporate borrowers has led us to believe that further loss provisions may be required," Mr Balderstone said. "These provisions, and the cost of funding loans not paying interest, will lead to a 1990 loss in excess of that in 1989."

Chase AMP lost A\$29.9m in 1989 and set aside loan loss provisions of A\$51m.

## Swiss machinery sales improve

GEORG FISCHER, the Swiss machinery group, saw group sales improve by 4 per cent to SF1.6bn (\$1.2bn) in the first eight months of 1990, AP-DJ reports. The company reiterated that group net profit for 1990 would show an improvement. In 1989, Fischer posted a net of SF73m.

## Hong Kong Land plans to adopt a more international image

By Angus Foster in Hong Kong

HONG Kong Land, the property arm of the Jardine Matheson group, has announced plans to adopt a more international image and broaden its shareholder base.

The company is seeking a listing on the International Stock Exchange in London for its shares and warrants. It is also launching a sponsored American Depositary Receipts programme and redeeming its share capital into US dollars. The moves follow the company's listing on the Luxembourg Stock Exchange in March.

Hong Kong Land's decision was expected because two other companies in the Jardine group, Jardine Matheson and Dairy Farm International, were listed in London earlier this year.

More than 99 per cent of the company's assets are based in the colony.

The company is the largest landlord in Hong Kong's central financial district. Hong Kong Land has said for over a year it plans to invest overseas but has not done so yet.

Jardine executives say overseas listings by companies in the group are business decisions aimed at increasing their international exposure and overseas shareholders base.

But some analysts say the moves are equally politically inspired. They recall that Jardine was the first Hong Kong company to switch domicile to Bermuda in 1984.

That move was interpreted as an attempt to distance the group from Hong Kong and its uncertainties in the lead up to the colony's return to Chinese sovereignty in 1997.

Obtaining overseas listings is seen as the next step towards an "insurance policy" on the handover.

Hong Kong Land announced the moves as it reported a 32 per cent rise in interim net profits to US\$129.5m. The company presented its accounts in US dollars rather than Hong Kong dollars for the first time.

Mr Simon Keswick, chairman, said rental levels for the company's portfolio of office and commercial space fell slightly compared with last year. Hong Kong's property market was hit by a year's crackdown in Peking and is now readjusting after several years of undersupply.

But Mr Keswick said Hong Kong Land's average rentals are still below market levels. The company is therefore gaining from rental reversions as clients renew leases.

Hong Kong Land is paying an interim dividend of 2.75 US cents a share, an increase of 34 per cent on the corresponding period last year.

## Hang Lung advances 5%

By Angus Foster

HONG Kong's Hang Lung Development, the property and hotel company controlled by the Chan family, has announced a 5 per cent increase in net profits to HK\$38.2m (US\$127m) in the year to the end of June.

But the figure was adversely affected by provisions for losses on Australian disposals. Turnover during the year jumped 43 per cent to HK\$3.07bn and the company is recommending a final dividend of 25 cents. Combined with the interim dividend of 16 cents, total distributions for the year

are increased 10.8 per cent to 37 cents a share.

The company said its property investment arm reported the best results. Hang Lung won a government tender to develop a site on Hong Kong's Peak, and will now spend HK\$750m turning it into a commercial complex.

Subsidiary Amoy Properties announced a 28.6 per cent increase in net profits to HK\$609.9m during the same period. The company is increasing its total dividends for the year by 15.2 per cent to 26.5 cents.

## Air Canada considers cuts

RIISING FUEL and wage costs are forcing newly privatised Air Canada to consider severe cutbacks, including staff layoffs and "parking" more aircraft and dropping aircraft order options, writes Robert Gibbons.

The company would say only that Mr Claude Taylor, the chairman, will announce rationalisation plans shortly.

Some analysts say Air Canada, privatised last year, will have to cut about 2,000 jobs. It has already announced plans to park eight L1011 aircraft throughout the coming winter.

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## 1990 Interim Dividend

For the purpose of calculating the number of new shares to be allotted to shareholders who have elected to receive the 1990 Interim Dividend of HK\$0.13 per share in scrip, the average of the last dealt price in the existing shares on The Stock Exchange of Hong Kong Limited on each of the five trading days following the closure of the Register of Shareholders on 17 September 1990 was HK\$5.18. The number of new shares which such shareholders will receive will be calculated as follows:

$$\text{Number of shares held} \times \frac{\text{HK\$0.13}}{\text{HK\$5.18}}$$

Shares representing fractional entitlements will be sold and the net proceeds retained for the benefit of the Bank.

By Order of the Board  
R G Barber  
Secretary

Hong Kong, 24 September 1990

## Standard &amp; Poor's Corporation

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By: The Chase Manhattan Bank, N.A.

London, Principal Paying Agent

September 24, 1990

CHASE

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## Faber Prest Plc

(Registered in England No. 36913)

Introduction to the Official List  
by  
County NatWest Wood Mackenzie & Co. Limited

## SHARE CAPITAL

Authorised	Issued and fully paid
£2,906,600	£2,085,950
Ordinary shares of 25p each	

Faber Prest Plc provides specialist industrial, shipping and transport services.

Application has been made to the Council of The Stock Exchange for all the issued ordinary shares of Faber Prest Plc to be admitted to the Official List. It is expected that admission to the Official List will become effective and that dealings will commence on 27 September 1990.

Details relating to Faber Prest Plc are included in the Companies Fiche Service available from The Stock Exchange. Copies of the listing particulars may be obtained during usual business hours from The Company Announcements Office, The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD, up to and including 25 September 1990 or during usual business hours on any weekday (Saturdays excepted) up to and including 8 October 1990 from:

Faber Prest Plc  
Meadowbank House  
Meadowbank Road  
Rotherham  
South Yorkshire S61 2DY

County NatWest  
Wood Mackenzie & Co. Limited  
135 Bishopsgate  
London EC2N 3XT

24 September 1990

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## NMB POSTBANK GROEP

Agent

August, 1990

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## KINTA KELLAS INVESTMENTS PUBLIC LIMITED COMPANY

(Incorporated in England under the UK Companies Acts 1908 to 1917, registered no. 214532)

Introduction to the Official List

arranged by

Henry Ansbacher &amp; Co. Limited

No.	Authorised	Share capital	No.	Issued and fully paid
200,000,000	£50,000,000	Shares of 25 pence each	158,395,600	£39,598,900

The principal activity of the Company is the management of the planning, design and construction of projects, which is carried out through its wholly owned subsidiary Pengurusan Lebuhraya Berhad.

Listing Particulars relating to the Company have been approved by The Stock Exchange as required by the listing rules made under Section 142 of the Financial Services Act 1986 and are available in the statistical service maintained by Exel Financial Limited on any weekday. Copies of the Listing Particulars are available during normal business hours up to and including 26th September 1990 from the Company Announcements Office of The Stock Exchange at 46-50 Finsbury Square, London EC2A 1DD, by collection only, and during normal business hours (excluding Saturdays) up to and including 8th October 1990 from:

Henry Ansbacher & Co. Limited  
Priory House  
One Mirra Square  
London EC3A 5AN

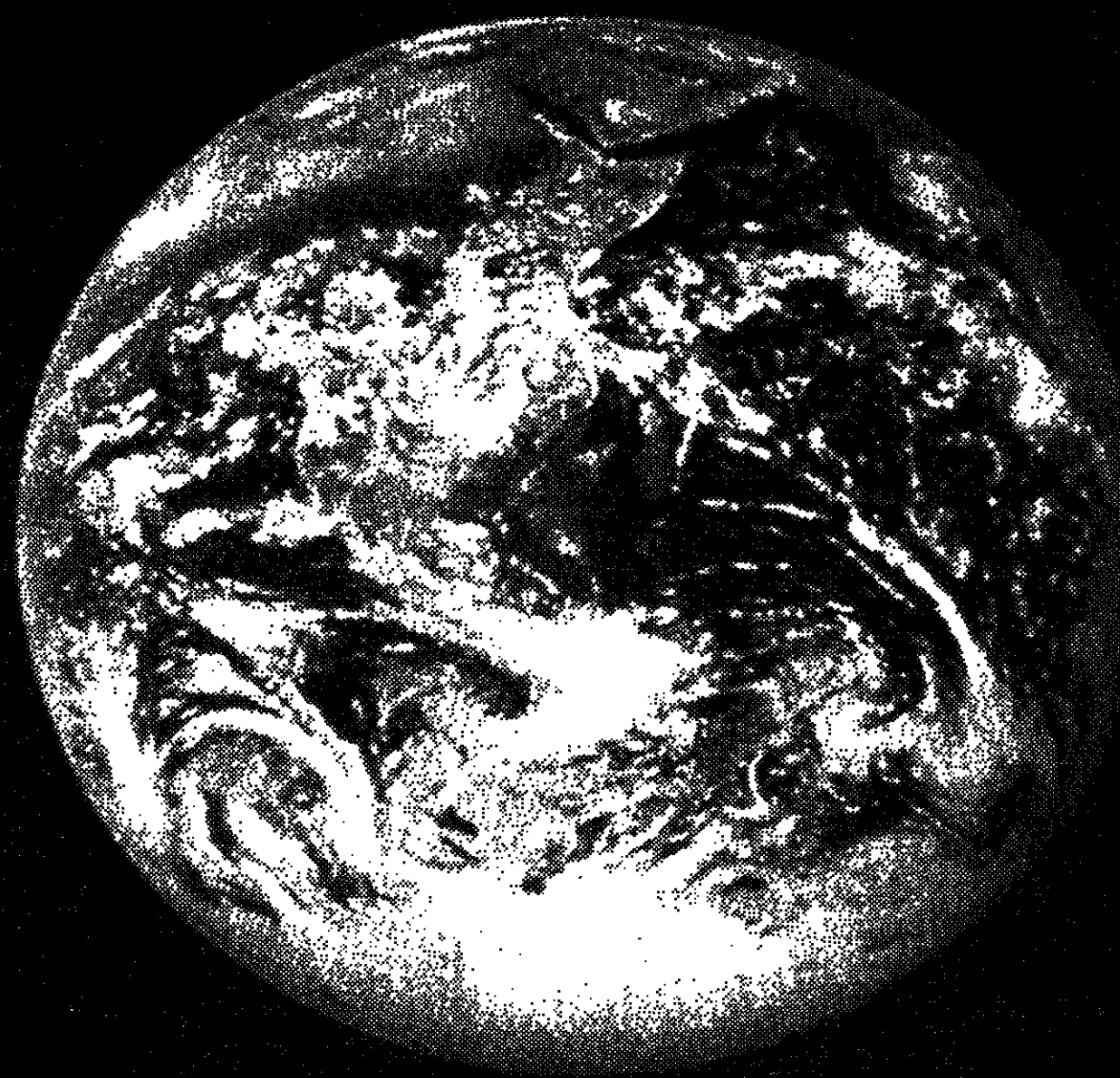
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London EC4N 8AE

and the registered office of the Company in England, Broseley House, Newlands Drive, Witham, Essex CM8 2UL.  
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## INTERNATIONAL CAPITAL MARKETS

## SYNDICATED LOANS

## Many corporate borrowers steer clear

THERE is much shaking of heads among syndicated loan officials as they bemoan the parlous state of the market.

There is talk of both US and Japanese financial institutions selling European loan portfolios into the secondary market to boost capital at home.

In particular, capital adequacy problems in Japan have forced some of the biggest syndicated lenders to pull back.

"If the price is right and they really like the borrower, the Japanese banks might commit a few million pounds to a deal," commented one senior syndicate official. "But I expect margins to move out by as much as 50 basis points and commitment fees by up to 20 basis points to get future deals off the ground."

Against this background many corporate borrowers are steering clear of the market, having arranged facilities at extremely fine rates over the past three years. However, not all borrowers can afford to wait or have access to lines of equity finance. For example, property developer Rosehaugh saw its share price fall by 30p to 72p on Thursday, against a 12-month high of 476p. A deep discount rights issue this year has effectively closed the door to more equity funding.

Yet despite the widespread gloom among arrangers and a traumatic downturn in the property sector, in July County NatWest arranged underwriting for a £200m four-year "construction facility" to enable development partners, Rosehaugh and Stanhope, to complete the Ludgate development, near St Paul's Cathedral.

The pricing is as yet undis-

covered.

Source: AIB

Week to September 20, 1990

Source: AIB

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## INTERNATIONAL BONDS

## European convertibles take stock of equity losses

CONVERTIBLE BONDS are designed to provide protection against stock market falls. Although convertible bonds outperformed stocks last week, when European share prices hit their 1980 lows, losses on convertibles were still substantial.

But many investors are loath to realise those losses while the scent of further stock market weakness is in the air.

In general, investors holding convertibles are better off than those holding equities.

But a consequence of convertible prices holding up relatively well when stock prices sink is that premiums rise sharply. This means that convertibles do not present a buying opportunity, even at lower price levels.

There is no incentive to switch out of equities into convertible stocks for hedging purposes.

"Investors who wanted to make that move should have done so when the [UK] stock market was 300 points higher," says one trader.

If anything, analysts say the

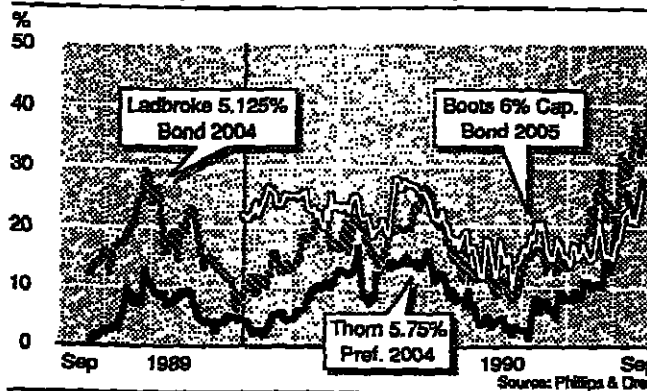
next move by investors will be to sell convertibles to buy equities, once stock prices are perceived to have bottomed out. But investors are unlikely to realise losses on convertible bonds, and switch into equities, until a new base for an equity prices market has been established. If further falls are likely, they will be better protected by holding on to convertibles.

Convertible bond holders may derive some comfort from the support afforded by the bond element of their investment.

The current yield gap between UK equities and gilts suggests that a correction is due - either a recovery in the stock market, or a weakening of the gilts market. A holding in the convertible bond market caters to both eventualities.

Gilts have been remarkably firm, and that is good news for convertibles, especially those with put yields around gilt market yields, because that will act as a floor," says Fergus McDonald, international convertibles analyst at Morgan Stanley International.

## Conversion premium for Sterling convertibles



In some cases, though, the focus has shifted to credit quality. "Some convertibles trade more like equities, some more like bonds, and others, where the yields are no longer supported, like junk bonds," one trader said.

As high interest rates and impending recession jeopardise the very survival of some UK companies, yields on some convertibles have reached new

When Cookson's share price lost 40 per cent in one day, the price in the company's £164m of convertible bonds slid from 80 to 62 pence in the pound. The yield to put on the bonds leapt to 27 per cent. (Investors have the right to have the bonds redeemed - a put option - at a price of 134½ in June 1994.)

The current price reflects investors' fears that the company may not be around, or may be unable to pay up, when they exercise their put option - just as the collapse of the company's share price appeared to be prompted by concern that the group would be unable to meet interest payments on its heavy debt load.

The put price did provide some downside protection, but some dealers think that the 20 point fall in the convertible price was not a wholly rational one. "Until two months ago, Cookson was a very solid company, one hundred," one trader said. "It is highly geared, but we do not expect the company to go to the wall. Even if the worst does come to the worst, it has decent

asset value and break-up potential." Convertible bond holders' claims rank above equity holders'.

As stock prices fall and bond yields become more relevant, the better quality convertibles are increasingly outperforming issues of poor and decreasing credit quality.

Deals like Boot's convertible yielding 12.7 per cent - more than gilts - are well supported by bond yields, while the premium, up 3 per cent to 21.8 per cent, still offers interesting equity kicker.

The smaller French market has generally been limited to top quality companies, so yields there have not generally opened up as wide as some in the UK.

Although any new convertible issues would be attractive to investors, because they would offer much lower premium, many would not be tempted. Not only have they been badly hurt, they are not even sure the pain is over.

Tracy Corrigan

## NEW INTERNATIONAL BOND ISSUES

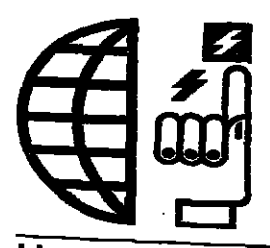
Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS								LIBRE							
Sumitomo Heavy Ind.♦	340	1994	4	4½	100	Daiwa Europe	4.875	World Bank♦	300	1995	5	12½	101.45	Int.Bancario S'Paolo	11.725
Hokuriku Bk Ltd(†)♦	200	2000	10	(†)	100	Goldman Sachs Int.	-	SWEDISH KRONOR	-	-	-	-	-	-	-
Ochobank(g)♦♦	100	2000	10	(g)	100	Merrill Lynch Int.	-	World Bank♦	400	1995	5	13½	101½	Svenska Int.	13.375
Daiwa Koshu Lease♦	180	1994	4	4½	100	Daiwa Europe	4.875	YEN	-	-	-	-	-	-	-
Nippon Palm Co.♦♦	150	1994	4	4½	100	Nikko Secs.	4.875	Kirin Int.Financs(c)♦♦†	70n	1995	5	(c)	101½	Yamashita Int.	-
Mitsui Eng. & Shipbuilding♦	330	1994	4	(5½)	100	Nomura Int.	-	World Bank♦	300n	1995	5	8½	101.40	LTCS Int.	7.900
Petroleos Mexicanos♦	150	1993	3	11½	99.70	SBC	11.749	Swedenbank(m)♦	30n	1993	2½	(m)	101½	LTCS Int.	-
Banesto Fin.(Cay.)♦♦(k)	100	(k)	-	(k)	100	Merrill Lynch Int.	-	Swedenbank(n)♦	10n	1991	1	(n)	101	LTCS Int.	-
Muloh Ind.♦	100	1994	4	(5½)	100	New Japan Secs.	-	Swedenbank(o)♦	10n	1991	1	(o)	101	LTCS Int.	-
CANADIAN DOLLARS								British Airports Fin.(†)♦	150n	1996	5½	(†)	100	DAIS Europe	-
American Express Cr.Corp♦	100	1993	3	11½	101.175	Lehman Bros.Int.	11.267	Skopbank(u)♦	50n	2000	9½	(u)	95½	NKK Europe	-
AUSTRALIAN DOLLARS								LUXEMBOURG FRANCS							
ICI Australia Fin.♦	80	1993	3	14½	101½	Hambros Bk	13.808	Banco Fin. NV(a)♦♦	200	1996	5½	10	101½	Banque UCL	9.519
NSW Treasury Corp(†)♦	200	2010	20	zero	9½	Hambros Bk	12.716	Merrill Lynch & Co(b)♦♦	1.20n	1994	4	10	101½	BIL	9.454
D-MARKS								Electricity AB♦♦	500	1996	5	9½	101½	Kreditbank	9.452
Cesvenka Obchodni Bka♦	380	1995	5	10	101	Deutsche Bank	9.738	Electricity AB♦♦	500	1996	5½	10	101.30	BGL	9.544
ASLK-CGER(h)♦♦	50	2001	11	(h)	100	Trinkaus & Burkhart	-	Compagnie Bancaire♦♦	300	1996	5½	10	102	Banque Paribas (Lux.)	9.489
Prov. of Saskatchewan(w)†♦	400	1997	7	(†)	100	CSFB Effectenbank	-	Banco di Napoli♦	10n	1997	7	9½	101.50	KBL	9.388
SWISS FRANCS								Volvo Group♦♦	10n	1993	3	10½	101½	BGL	9.428
Leichtz Glas Co.(g)♦♦	80	1995	-	5½	100	Credit Suisse	5.250	ASLK-CGER(h)♦♦	10n	1997	7	9½	101½	Banque UCL	9.546
Kabuto Decon Inc.♦♦	70	1995	-	9½	99½	Offshore Inv.Bk.	5.054	Commerzbank Int.(v)♦	10n	1997	7	10	101.50	Credit Lyonnais	9.567
Shibaura Eng.Works(†)♦♦	50	1995	-	5½	100	Nomura Bk (Swiss)	5.250	CL Belgium Fin.♦♦	30n	1995	7	10	101.50	BOCE	9.605
Koukou Co.(o)†♦	25	1995	-	4½	100	Nomura Bk (Swiss)	4.750	<small>† Floating rate note. ♦ Variable rate note. ♦ Final terms. ♦ Fungible with existing £100m deal from 6/10/90. Non-callable. (†) Amount increased from £100m. Issue price decreased from 101.80%. Issue launched 28/9/90. Non-callable. (g) Revenue FPN issue. Coupon pays 10% for first 3 years, then 14% until 5 years, then 16% thereafter. Non-callable. (h) Fully fungible with existing £100m deal from 4/10/90. Non-callable. (i) Callable 11/10/90 101% declining to 1% annually. Exercise premium fixed at 2.50%. (j) Subordinated FPN issue. First 10 years then £100m for 10 years 11/20. Then £100m plus 100bp for 10 years 11/20. Then £100m plus 100bp thereafter. Maturity: undated. (k) Fully fungible with existing £100m deal from 10/10/90. 100% to yield 8.400%. (l) Put option 2/10/90 110% to yield 8.400%. (m) Coupon pays 6-month Libor plus 1% for first 5 years, then 6-month Libor plus 1% thereafter. Call date after 5 years. 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FINANCIAL TIMES SURVEY

WORLD NUCLEAR INDUSTRIES

Monday September 24 1990



Nuclear power is still a growing component of world electricity supply, exceeding 17 per cent last year.

However, the growth of nuclear power has been much slower than predicted when oil and other fossil fuel prices first soared in 1972.

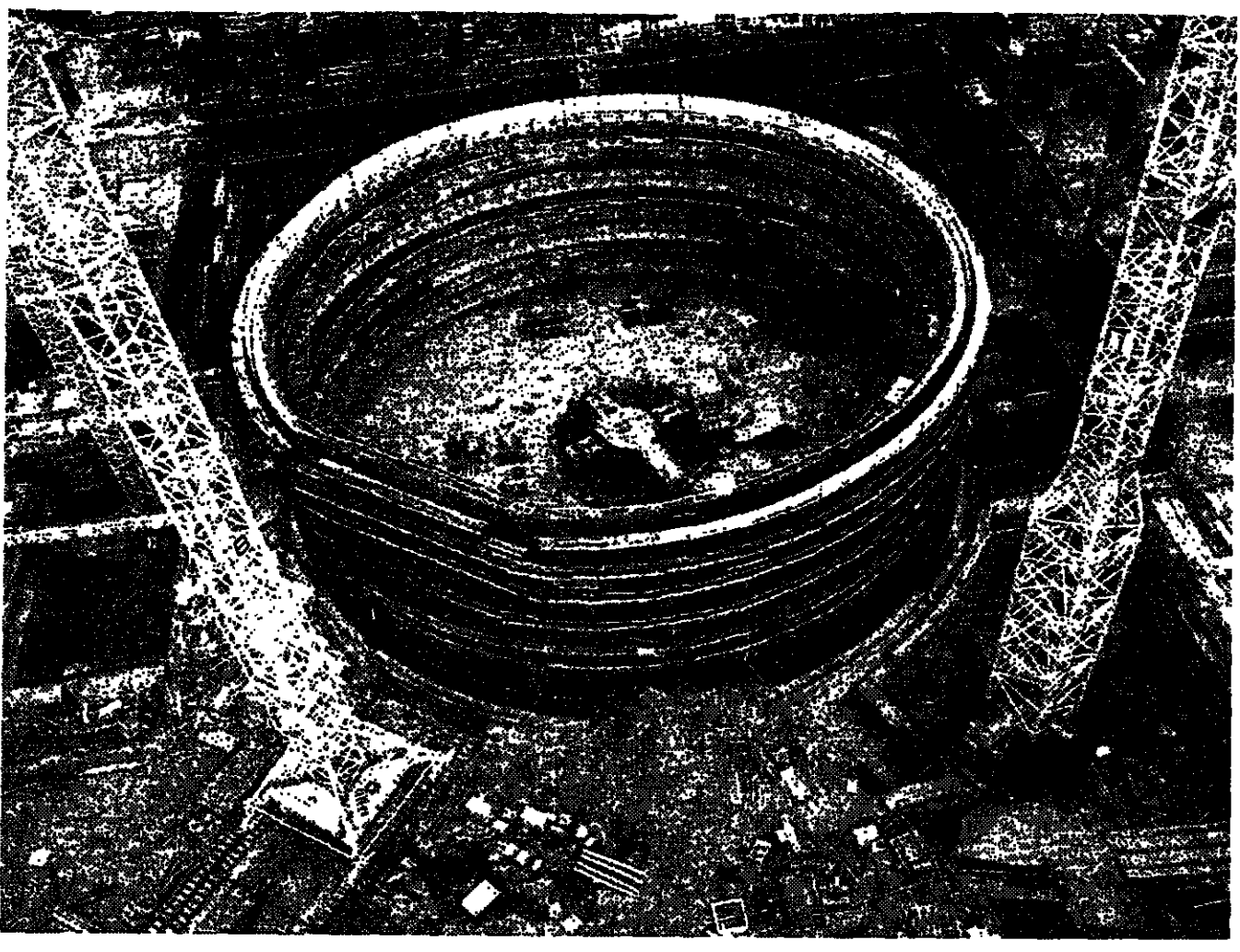
David Fishlock investigates

Safety fears check growth

EXECUTIVES of a large electrical engineering group tell how, in the directors' bathroom, a Save It sticker on the light switch has an addendum added in the managing director's hand-writing: "and everything else." But saving electricity cannot save us from buying new power generation equipment, as that same chief executive would readily agree.

In the 12 countries of the European Community, for example, electricity demand is expected to rise by almost 25 per cent during the 1990s, in spite of increasing EC attention devoted to cutting it. Growth in many developing countries will be still faster, much less fettered by western worries about possible long-term environmental damage when their own short-term imperatives are so pressing.

Nuclear power is a growing component of world electricity supply, exceeding 17 per cent last year. Nuclear output is equivalent to 6m barrels of oil a day. But growth of nuclear power is much slower than predicted when the oil price first soared in 1972, soon followed by all other fossil fuel prices. It shows no sign yet of responding generally to the



Sizewell B

demand for more electricity. One reason is that some countries with substantial nuclear power programmes have carried them out successfully, if slowly, in the last two decades, but are now pausing.

France, with 54 plants in service, is the most conspicuous example. It even exports power to five neighbouring countries, including the UK. But others which have completed large nuclear power programmes include Spain, Sweden, Canada and the US. In fact, the latter, which has the world's largest nuclear programme, has put 112 reactors into service, providing over 19 per cent of its electricity. All these countries are weighing what to do next.

Another important reason for the slowdown, however, is public concern about nuclear safety. The USSR, which in 1986 experienced the world's worst nuclear accident, wrestles with its worst electricity shortage.

When Chernobyl exploded, the USSR was commissioning 4 to 5 gigawatts of nuclear electricity a year. Since Chernobyl this has slumped to 1GW a year, while nearly 2GW has been taken out of service. Lithuania - the first Soviet republic

plans another referendum this month.

Britain, with its own unique way of persuading the public that nuclear power is safe, through marathon public inquiries in which expert claims can be exhaustively questioned and contested, has found an equally unusual reason for a moratorium. In quest of privatising its electricity supply, it changed the financial rules in a way that severely disadvantaged nuclear electricity. As a result, nuclear power is to stay in the public sector, apparently subsidised by the taxpayer (as domestic coal, Britain's main electricity

fuel, has always been).

Britain has some unenviable nuclear problems, legacies of the fact that it pioneered commercial nuclear power but persisted with its own technology long after the evidence showed that this was wrong. Britain is making another mistake in widely perceiving nuclear power as inherently costly, when the sad fact is that it has been mismanaged by industry and government alike since the fateful Dungeness B decision in the mid-1960s.

Evidence for the competitiveness of nuclear power comes from many different sources. Within the EC it can be found

in Belgium, France, West Germany and Spain. Elsewhere in Europe, there is strong evidence from Finland, Sweden and Switzerland. Outside of Europe, it can be found in Canada, Japan, Korea and the US.

Sweden, which obtains nearly half its electricity from its 12 nuclear stations, provides perhaps the best test of comparative power costs. When Swedish politicians decreed in 1980 that Sweden should complete its nuclear programme by building three more stations, but then get rid of all 12 by 2010, they were confident of finding competitive alternative sources. A

decade and 20 official studies later, there is none in sight.

Swedish politicians have an understandable desire to avoid reopening the national nuclear controversy, but are unable to assure industry that power costs will not rise steeply, risking unemployment and lost export markets when nuclear plants go. Alternatives such as wind power are uneconomic or else, as with hydro, public opinion forbids development.

Sweden may handicap itself further by charging an "environmental fee" for utilities that emit carbon dioxide, sulphur dioxide and oxides of nitrogen. In May parliament approved such fees for heat-generating plant which, if also applied to electricity plant, would nearly double the price of all fossil-fuelled power.

Japan affords a different kind of economic test. Unhampered by any need to protect an indigenous source of fuel, it is concerned only to protect its economic ambitions.

More than a quarter of Japan's electricity is nuclear. It has another 13 nuclear plants under construction, which will increase nuclear output by 50 per cent. Its performance in both construction and operation ranks among the world's best. Japan's government has no doubt it must soon embark on a new nuclear programme and another 20 power stations.

Canada, source of over 30 per cent of the world's uranium, according to the Uranium Institute, expects to restart nuclear construction within 5-6 years, the time it expects it would need to win planning approval.

Ontario Hydro, the world's fifth-largest electricity utility, obtains half its power from nuclear plants of Canadian design. It plans to build a new four-reactor Candu station of 3GW capacity in the 1990s and 10 reactors over the next 25 years.

These are examples from democratic nations which have great experience of nuclear economics, and have faced opposition to nuclear power, yet are certain it remains in their own best interest.

Professor Kunihiko Uematsu, director-general of the Nuclear Energy Agency, nuclear arm of the OECD, told the Uranium Institute's symposium in London earlier this month that the key to ensuring that nuclear power fulfils its potential for providing the world with competitive electricity is international co-operation. About four-fifths of all nuclear power is generated by OECD nations.

One important example of co-operation has begun between organisations operating nuclear power stations. The World Association of Nuclear Operators, inspired by the Chernobyl disaster, aims to raise non-OECD nuclear safety to standards prevailing in OECD countries.

Prof Uematsu proposes other collaborations such as joint research and demonstration projects in areas of public worry about safety. The final disposal of highly radioactive nuclear wastes might be a suitable subject, he suggests.

International co-operation on radioactive waste problems and advanced reactor concepts could have the advantage of spreading costs which are growing too heavy for any organisation to bear alone. This should facilitate the evolution of internationally acceptable standards of licensing for new nuclear plant.

**IN THIS SURVEY**

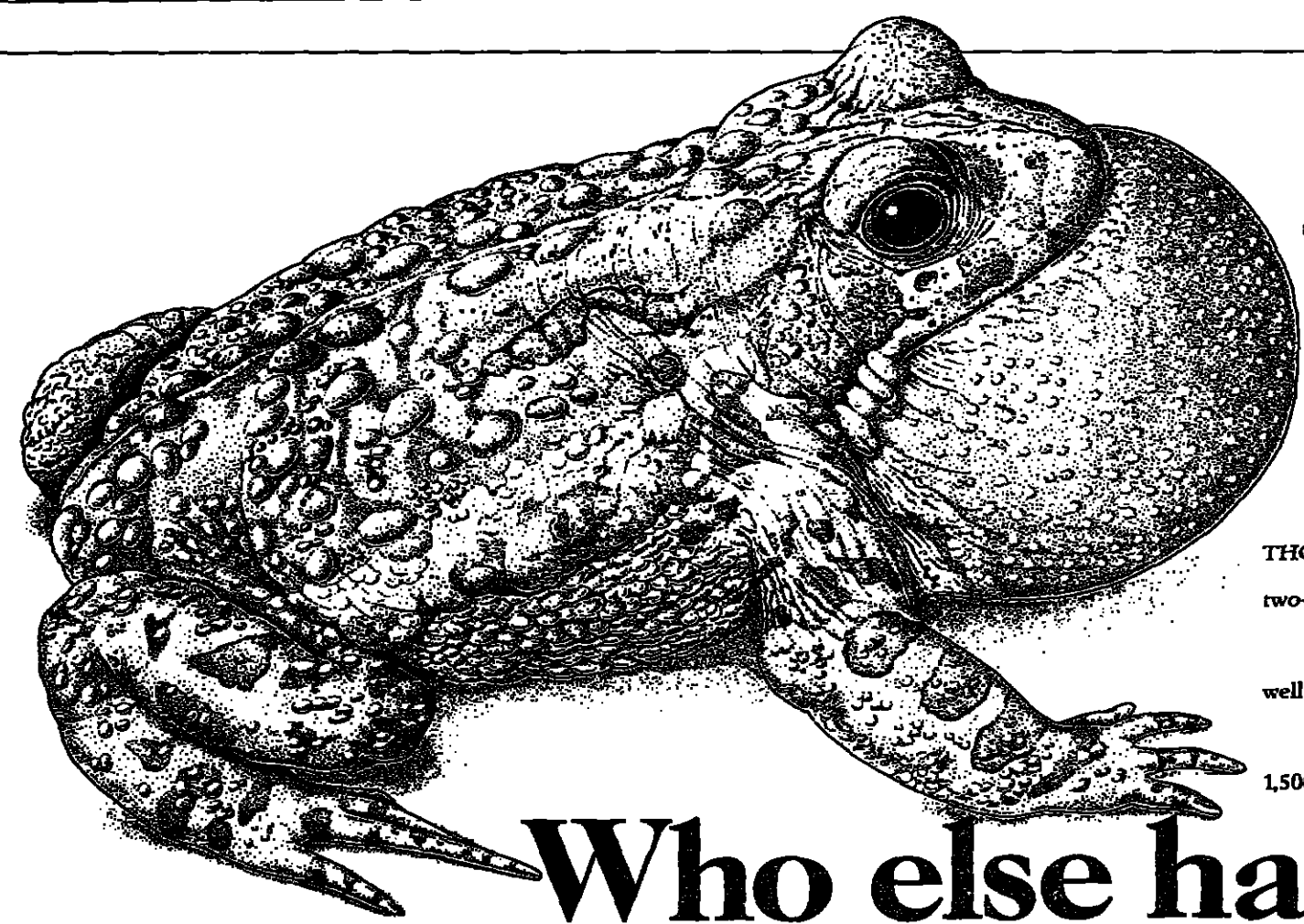
**Moving forward:** British nuclear operators are learning to co-operate to make progress. **Page 2**

**Innovations in the nuclear fuel cycle business** **Page 3**

**The high cost of safety** **Page 2 and 3**

**Politics of power:** Past experiences and future plans of the leading nuclear nations **Page 4**

**International endeavour:** Chernobyl spurred nuclear operators around the world to act together to raise standards of safety **Page 5**



And we utilised the most advanced techniques in engineering design, project management, and large scale process control networks in its development.

Reprocessing spent nuclear fuel at THORP represents big business for us - and for the nation.

Even before its 1992 completion date THORP's order book stands at almost £6 billion, two-thirds of which are exports.

It's business secured which will take us well into the second decade of the next century.

Further, the expertise developed by our 1,500 strong team of engineering, design and



great deal of our attention on environmental issues.

Over £2 billion is being spent improving, even further, our nuclear waste management and environmental protection facilities.

We routinely test, for instance, 10,000 samples a year from our sites and their immediate surroundings.

Who else has a vested interest in Europe's biggest on-shore construction site?

We wouldn't expect anyone, other than a wildlife expert, to recognise them immediately.

The big chap above is the Natterjack Toad. He can be found on and around the British Nuclear Fuels' Sellafield site.

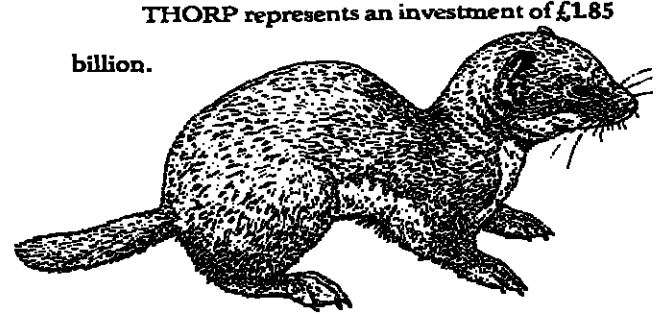
So can the Six Spotted Burner Moth and a pure white Barn Owl.

In the river Calder running through the site, trout and even the Three Spined Stickleback can be seen.

What you will also find at Sellafield is

THORP (Thermal Oxide Reprocessing Plant) - a major part of the biggest on-shore construction site in Europe.

THORP represents an investment of £1.85 billion.

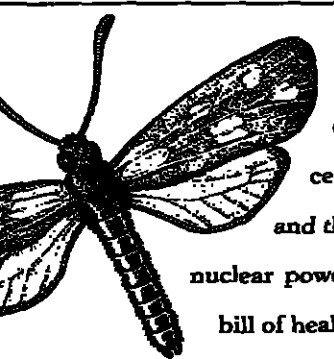


safety specialists is now available as a total project engineering capability.

Good news for Britain. But what about our neighbour the Natterjack?

British Nuclear Fuels' £1½ million a day investment programme isn't just about projects like THORP.

As the nuclear industry has always had to face intense public scrutiny, we've focused a



And, when it comes to global concerns such as 'acid rain' and the 'greenhouse effect' nuclear power can claim a clean bill of health.

Something our friend the Natterjack Toad would surely give his croak of approval to.

British Nuclear Fuels plc, Information Services, Risley, Warrington, Cheshire WA3 6AS.

Facsimile: 0925 822711. Telex: 627581.

B R I T I S H N U C L E A R F U E L S



## WORLD NUCLEAR INDUSTRIES 2

The UK nuclear industry is down but not out. David Fishlock reports

## Co-operation replaces bickering

THE British nuclear industry suffered a near-fatal blow late last year. The Government cancelled three planned nuclear stations and reorganised electricity supply so radically that Lord Marshall, Central Electricity Generating Board chairman and the internationally acknowledged industry leader for nearly a decade, was out of a job.

All the same, nuclear's antagonists may be premature in pronouncing the industry actually dead, as this year yet another marathon public inquiry has found the industry's proposals safe and, on balance, beneficial; and nuclear companies have signed contracts for another 2000m of exports.

Mr Neville Chamberlain is

## A more daunting problem for the nuclear utility may be its AGRs

chief executive of British Nuclear Fuels, the company which has won the export contracts for German spent-fuel reprocessing he sees the Government's approval in principle of the Hinkley C nuclear station earlier this month thus: "It sends the right signals to our customers overseas."

For the foreseeable future, UK nuclear electricity and fuel supply will remain in the public sector, following the Government's belated discovery that its privatisation plans failed to include the kind of guarantees enjoyed by private-sector nuclear operators elsewhere in the world. Lord Marshall tried to warn - but failed to convince.

One clear consequence of the government action has been to force survivors to co-operate instead of bickering, as they had done - increasingly bitterly - since Britain enjoyed about 50 per cent of the world's nuclear electricity programme (now down to about 3 per cent).

In particular, the two big state-owned sectors, Nuclear Electric, the new all-nuclear utility with over £5bn of reactor assets, and its fuel supplier BNFL, now recognise that public argument in an unsm-

pathetic world can be dangerously destructive. For the past 10 months they have been negotiating quietly a new long-term, fixed-price fuel services contract stretching well into the next century, which will be worth something close to £10bn to BNFL at current prices.

The UK moratorium on new reactor construction before 1994 has refocused Nuclear Electric's thinking on extending the life of its Magnox reactors. If the utility can convince the Nuclear Installations Inspectorate that, for a relatively modest extra investment of between £10m and £15m per station, these plants can be run for 35 instead of 30 years, it will be worth an extra £1bn in revenue, says Mr John Collier, chairman and chief executive. A bonus, he adds, given current political concerns, is that it would avoid an extra 60m tonnes of carbon dioxide.

A more daunting problem for the utility may be its advanced gas-cooled reactors (AGRs): five stations totalling more than 6,000MW of potential capacity, but actually generating little more than half the electricity Mr Collier believes they are capable of. As a result, AGR power is appreciably more expensive than Magnox power. For safety reasons, Mr Collier is not allowed to move fuel in and out of the reactors as fast as he wishes, which accounts for a lot of the



Neville Chamberlain: Hinkley C decision sends right signals

deficit, he says. "But I'm determined to get them good - even Dingones B."

As for Sizewell B, Nuclear Electric's only reactor construction project, Mr Collier has no doubts about the importance of completing it to budget in 1994, if the Government is to be persuaded to let him start more reactors. Nearly one-third of the way through

its 72-month construction programme, the project is just ahead of schedule as it enters a tricky period which should see the pressure vessel in place by next summer.

A central part of Nuclear Electric's strategy is to prepare the way for re-entry into reactor-building. Mr Sam Goddard, director responsible for construction and planning, says it

proposes to offer the Government a range of carefully considered options.

The baseline will be to restore the programme based on the Sizewell B design, starting with Hinkley C. It is clearly the quickest way to re-enter, but there is the problem of cost.

The world's most expensive pressurised water reactor cannot compete with gas-fired power harnessed by the combined-cycle plants the newly privatised power companies are expected to order.

So, Mr Goddard is weighing alternatives expected to reduce the nuclear costs. All are PWRs, but they fall into two categories. The near-term alternatives are existing PWR designs, such as the latest French N4+ reactor, under construction at Chooz on the border with Belgium, the Combustion Engineering System 80+ and the Mitsubishi reactor. None has yet been licensed in Britain, so Goddard assumes it will be 1996-98 before he could expect to get a construction permit.

One possibility he has just begun to study is to improve the Sizewell B design, using longer fuel, but without jeopardising the safety case.

The longer-term alternatives are the "safer" reactors such as the Westinghouse AP 600 and the Anglo-US safe integral reactor. These systems will first require a demonstration reactor, ruling out commercial construction this century.

Very silly things have been said about the cost of nuclear power in the past year, says Mr Goddard. There is clearly a price to be paid for cleaning up fossil-fuel plants, which is already charged against nuclear units.

He will try to produce a convincing case for his estimates of the value of reactors not emitting pollutants, in the light of the UK's international undertakings.

Nuclear Electric, like other parts of the electricity supply industry which are not being nationalised, is under strict orders from the Government to keep out of the news. But when privatisation is completed next year, there will be a case for a new national debate about the right place of nuclear power in UK energy supply, suggests Mr J.C. Stewart, chairman of the British Nuclear Forum, the industry's trade association. He wants to see this debate bring all the rigour of the four exhaustive public inquiries into nuclear safety, to bear on the wider issues of nuclear economics.

The public generally - including the City - sees it as an expensive indulgence in high technology. The nuclear industry believes there is already ample evidence overseas that nuclear energy is a fully commercial and highly competitive investment in mature technology, says Mr Stewart. He believes the private sector will also be clamouring for permission to build reactors.

David Thomas

## Casualty of privatisation

NUCLEAR POWER, once heralded as ushering in an era of cheap electricity, has been one of the main casualties of the UK electricity privatisation programme.

The Government was forced into a humiliating retreat last year when it dropped plans to privatise any of the nuclear power stations in the UK. Ministers had little choice, since the financial analysis which preceded electricity privatisation had resulted in a big escalation of cost estimates for nuclear power.

In 1988, the Central Electricity Generating Board told the public inquiry into its proposal to build a new pressur-

ised water reactor station at Hinkley in Somerset that the station's output would be less than from a coal-fired station.

Once private sector financial analysis had been applied to nuclear power, however, the industry admitted that the lifetime cost of PWR generation would be 6.25p a unit (kilo-watt/hour), compared to 2p-3p for a combined cycle gas turbine plant and 3p-4p for a new large coal station.

Several factors lay behind these increases: inadequate provisions for the cost of reprocessing nuclear waste and decommissioning nuclear stations; unduly low rates of return used to appraise

nuclear stations; excessively long 40-year depreciation periods used in calculating nuclear costs; and the failure to include interest costs.

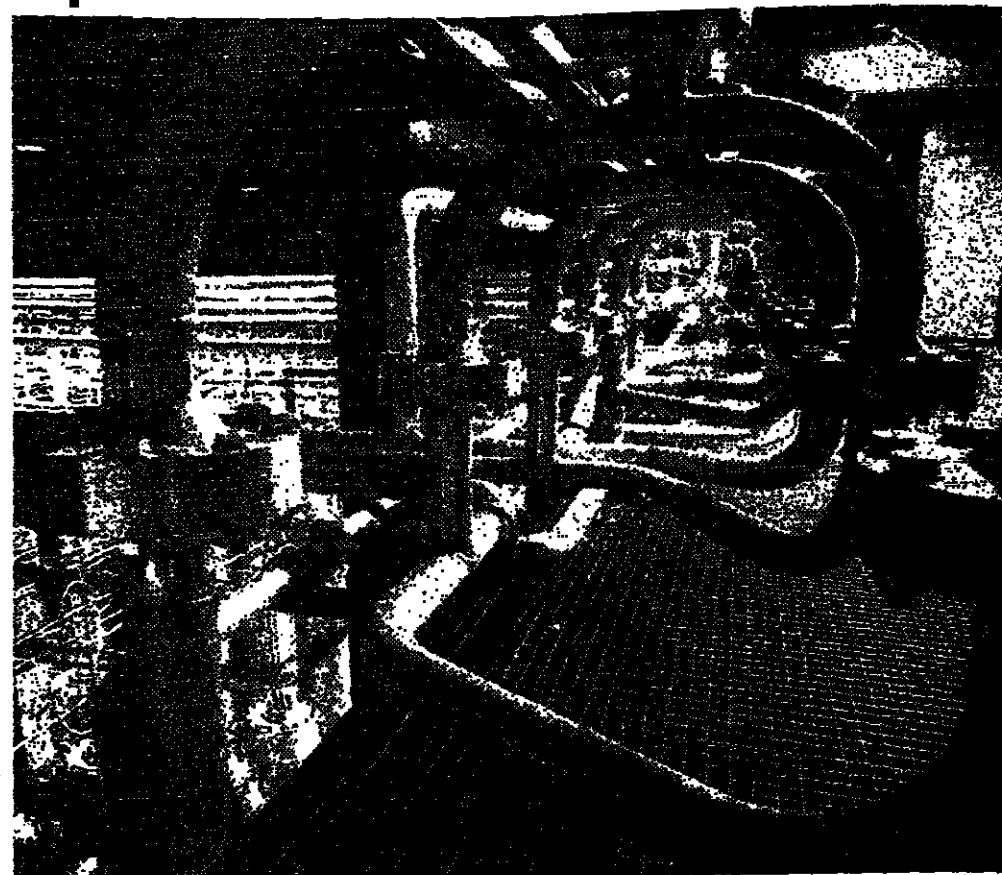
The House of Commons Energy Committee, which published a scathing report on the privatisation fiasco earlier this year, believes that the UK industry has been subject to less rigorous financial appraisal than some of its counterparts overseas.

But it remains an open question whether any state-owned nuclear stations could survive the sort of examination demanded by privatisation.

David Thomas

## NUCLEAR FUEL CYCLE

## Enrichment process passes test of time



Gas centrifuges for uranium enrichment in Urenco's latest factory at Almelo, Netherlands

URENCO, the Anglo-German-Dutch uranium enrichment company, has reported that gas centrifuges designed in the 1960s to run for 10 years have run non-stop in both the Netherlands and Britain for 14 years. To make a machine run continuously at super-sonic speeds without maintenance for a decade and longer is a remarkable achievement.

The gas centrifuge is one example of a nuclear technology in which Europe has collaborated to score a singular success, by displacing the US-invented gas diffusion process as the cheapest way of enriching uranium for nuclear fuel.

The two decades since the signing of the tripartite Treaty of Almelo, which gave birth to Urenco, have witnessed a steep drop in the rate at which nuclear power was expected to expand. Nevertheless, its growth has sufficed to help Urenco establish itself as an international nuclear business with an order book for 1990 and beyond exceeding \$3bn, and embracing Brazil, Sweden, Switzerland and the US, as well as its partner-nations.

Investment plans call for 2,700 tonnes of enrichment capacity a year by the end of 1990, all authorised against long-term supply contracts and amortised over 10 years.

The collaboration has melded three national programmes into the single design of gas centrifuge now being installed in all three Urenco factories. An updated

## How plutonium may reduce enrichment demand (%)

Country	1980	1985	2000
Germany	8.3	13.7	14.8
Switzerland	5.2	21.4	17.5
France	2.3	4.1	7.1
Japan	0.3	2.0	4.4

Source: Urenco estimates

version of this machine will be installed from the end of the year - the machine Urenco also plans for its first US plant, in partnership with US utilities. "We still believe that for the next decade our centrifuge will be the most economic way of producing enrichment," says Mr George Ingalls, Urenco's managing director.

The US venture, in partnership with a new energy consortium called Louisiana Energy Services, is budgeting "tens of millions of dollars" to prepare the safety and engineering case for what it hopes will be the first US licence for an enrichment plant, near Homer, Louisiana.

It expects to submit its case for a turn-of-the-century plant to the Nuclear Regulatory Commission in January and hopes for approval within two years. If the partners then decide to proceed, the plant could be producing enrichment by the end of 1995, Mr Ingalls says.

Factors influencing the decision could include US Government policy on enrichment, which is still evolving. Another is the USSR's plans for using its own gas centrifuge enrichment capacity -

deriving from the same basic inventions as Urenco's centrifuges - to expand its exports of enrichment to the west at competitive prices. A third factor is the growing use of plutonium instead of uranium to enrich nuclear fuel.

Recycling of fissile plutonium separated from spent nuclear fuel, as enriched fuel for thermal reactors, was demonstrated in an Italian reactor in the 1960s. Typically, 70 per cent of the plutonium recovered by reprocessing is fissile. Plutonium-enriched fuel has been more difficult to develop for several reasons, such as the toxicity of plutonium, which makes fuel more expensive to fabricate.

Several nations have persevered with trials of mixed-oxide (MOX) fuels of uranium and plutonium oxides in light water reactors, and have shown that fissile plutonium can be recycled safely and reliably as an alternative to uranium enrichment.

Europe uses MOX fuel equivalent to a charge of one big reactor, or about 120 tonnes of separative work a year.

Continued on Page 3

**EUROPEAN ENERGY**

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FINANCIAL TIMES

NEWSLETTERS

## ADVANCED REACTORS

## The high cost of safety

PRESENT commercial designs of nuclear reactor are unnecessarily complex and costly. It is argued by the industry, because the designers have been obliged to add on so many "afterthoughts" to accommodate above all developing perceptions of nuclear safety.

Britain, for example, has achieved the unenviable reputation of designing the world's most expensive pressurised water reactor for Sizewell B, in order to placate critics of PWR safety.

All leading reactor vendors have therefore accepted the challenge of designing an even safer yet cheaper system. The two goals are not necessarily incompatible because ways of making reactors intrinsically safer - if not inherently proof against a serious accident - have been proposed.

The Swedes started the fashion with the former ASEA-Atom's Plus (process inherent ultimate safety) reactor concept, although a government moratorium on further reactor construction has prevented any demonstration. The plan is that the 500MW Plus reactor, shrouded in its pressure vessel of prestressed concrete, would shut itself down and cool automatically in an accident. Potential customers have raised the point that it might, in fact, shut down too readily to be a reliable power supply.

In the US, Westinghouse Electric has its AP600 advanced PWR, which embodies such positive safety features as a chimney that helps cool the reactor containment by convection, and greater protection against a loss-of-coolant accident.

General Electric is working on its advanced BWR, using an international team drawn from

BWR vendors in Europe, Japan and the US. The version which corresponds to AP600 is its small/simplified BWR of 600MW which includes such passive emergency response features as a suppression pool to absorb blow-down energy, a gravity-fed cooling pond to flood the reactor, and an isolation condenser pool to remove radioactive decay heat to atmosphere.

The US Department of Energy is helping to fund further development of these two light water reactors, following a review last year. The review rejected an application for funding from proponents of the

## Britain has designed the world's most expensive pressurised water reactor for Sizewell B

Plus reactor, and from backers of an Anglo-US PWR project called the safe integral reactor (SIR).

SIR is a concept devised by four parties in concert: Rolls-Royce, whose associated nuclear company builds the Royal Navy's reactors; Combustion Engineering and Stone and Webster in the US; and the UK Atomic Energy Authority. Sir's central safety feature is that the entire primary circuit is contained within a single steel vessel whose essential safety characteristics have been endorsed by the Sizewell public inquiry. The concept has recently been updated from 320MW to 400MW. The UKAEA has proposed that a demonstration SIR be built at its Winfrith site in Dorset.

The future of SIR may now rest with recent industrial developments bringing Combustion Engineering together

with Asea Brown Boveri (ABB). ABB Atom has access to Combustion Engineering's latest PWR technology, its own BWR and high-temperature gas-cooled reactor (HTGR), Sweden's Plus, and Sir. Mr Lennart Fogelstrom, Sweden's nuclear industry leader, is advising the ABB board on how this nuclear smorgasbord might be rationalised.

Two further advanced thermal nuclear systems are being funded by the US Energy Department and have been evaluated this year on behalf of US utilities by the Electric Power Research Institute (EPRI). They are General

Atomic's HTGR and GE's liquid metal reactor. The EPRI study concludes that both should continue to be developed.

The nuclear physics and chemistry of the fast reactor has been demonstrated convincingly, notably by France and Britain. The reactor is docile and easily controlled. Less easily controlled is the cost of designing a system requiring, for safety reasons, an extra heat-transfer system between its molten metal coolant and the steam circuit.

All large fast reactors have suffered problems at this complex and costly interface, suggesting that a dependable commercial system is likely to be still more expensive to engineer than a thermal reactor. The uranium price required to make the fast reactor competitive still tends to recede. Britain, unable to get an eco-

nomic price for running its 250MW prototype fast reactor at Dounreay in north Scotland, plans to close it in 1993. Even the French are having doubts about the performance of Superphenix, their 1,200MW collaboration with West Germany, Italy and Benelux. All plans to proceed with more fast reactors have been shelved. Britain's Energy Department has put the commercial fast reactor no nearer than 2020.

A fusion reactor is furthest away, for it has not yet reached the experimental stage of the original fission "pile" of 1942. Controlled thermonuclear fusion has proved one of mankind's most difficult technical goals, and enough is now known about the tokamak, as the favoured approach, to suggest that it will be a costly and troublesome technology to implement and maintain.

What drives the research is the idea that fusion will run on almost inexhaustible fuels, and will involve lesser radioactivity problems than fission reactors. If realised, it could insulate its inventors from all the geopolitical and most environmental problems associated with present-day fuels.

This view has found unexpectedly strong support from an independent team of technical analysts asked by the European Commission to examine its £300m per year fusion research programme. The team, led by Professor Umberto Colombo, chairman of ENEA, the Italian energy research commission, wants the European Community to keep fusion at high priority in its research strategy, even though it reckons commercial fusion reactors to be 50 years away.

David Fishlock



## WORLD NUCLEAR INDUSTRIES 3

The nuclear fuel service industry sectors, from source through to reprocessing and waste disposal, are explored by David Fishlock

## New answers as waste material piles up

Continued from page 2  
The table on Page 2 gives Urenco's estimates of how MOX fuel may penetrate some nuclear markets and displace uranium enrichment.

West Germany, one of Urenco's partner-states, is the driving force behind recycled plutonium. Peter Schmiedel, general manager for nuclear fuel projects with Siemens, says that his factory at Hanau had so far turned 3.7 tonnes of fissile plutonium into 70,000 MOX fuel rods. During the 1990s he expects to recycle a further 24 tonnes of plutonium - conserving a total of 5,000 tonnes of uranium and the need for 4,000 tonnes of separate work.

Ten German reactors have so far been licensed to use MOX fuel and a further eight have applied for a licence. Schmiedel's factory is being expanded from 40 tonnes to 120 tonnes of MOX fuel a year. France, with Europe's biggest inventory of reactors, is making MOX fuel rods through Framatome, with help from Belgium's Belgomox. The first were loaded into Electricité de France's St Laurent B1 PWR in 1987, and another three EDF reactors have since received MOX. Four more will be loaded by 1992.

France is building a new MOX fuel factory at Marcoule on the Rhone. Owned by Cogema and Framatome, it is scheduled to produce its first fuel rods in three years' time. France has already secured orders for MOX fuel from two German utilities.

Britain, which has made MOX fuel for its prototype fast reactor since the early 1970s, is now building a demonstration plant at Sellafield for a new manufacturing route called the "short binderless route", as a joint venture between British Nuclear Fuels and the UK Atomic Energy Authority.

BNFL plans to have a commercial MOX factory based on this new process operating by the late 1990s. Its advantages, the company says, include the ability to deal with "old" plutonium, long in store, which has accumulated neutron-absorbing americium-241 from transmutation of plutonium-241. The two partners are talking of a \$50m investment in a MOX factory making between 50 and 100 tonnes a year, in which AEA Technology, the UK AEA's commercial arm, might take a 10 per cent stake.

THE Swedish government led the way a decade ago when it insisted that the nuclear industry must also make full provision for radioactive waste disposal, before it would approve the three more nuclear stations which would complete Sweden's first nuclear power programme. This meant disposal of everything except the most highly active waste associated with 12 nuclear stations and their fuel services, after their scheduled shutdown by the year 2010.

As a result, the Swedish Nuclear Fuel and Waste Management Company (SKB) has a sub-sea repository in operation at Forsmark, north of Stockholm, designed to contain all radwastes, including the debris when the nuclear facilities are eventually dismantled.

The Swedish utilities pay SKB an annual fee calculated to cover all costs associated with the end of the fuel cycle up to about 2050. Meanwhile, the high-level wastes are being

### Each nation, like Sweden, has unique solutions

stored in facilities designed for a life of up to 40 years, while SKB is still researching and designing a separate repository. It has just begun to excavate a new "hot laboratory" deep in granite in southern Sweden, near the national spent-fuel store.

The US, with nearly ten

times as many nuclear plants operating as Sweden and a huge legacy of radwaste from 50 years of nuclear weapon industry activities, has taken few long-term decisions, mainly because it cannot agree whether to build a national

### In the Eastern bloc, there is a still bigger problem. The west may be obliged to help manage this

repository or order each nuclear-owning state to construct its own.

The US Government has estimated, however, that its Department of Energy sites alone present a radwaste problem that will cost \$30bn to clean up. In addition, it must deal with the growing inventory of spent fuel accumulating in stores at every nuclear station since it prohibited reprocessing in 1977.

In the Eastern bloc, there is a still bigger radwaste problem. The west may be obliged to help manage this, if only to prevent the consequences spilling across national boundaries.

Western Europe is well equipped to assist both superpowers with their radwaste problems. Each nation, like Sweden, has been obliged to respond to strong domestic pressure for action, and as a result has unique solutions.

The French, for example, with Europe's biggest nuclear power programme, focused strongly on perfecting the tricky technology of vitrifying

highly radioactive reprocessing effluent, some of which it has licensed to Britain.

In the UK, a series of mishaps at the Sellafield reprocessing factory which threatened the future of one of the country's most successful

themselves efficiently of any engineering parts their robots may replace during their lifetime. As Mr Neville Chamberlain, BNFL's chief executive, points out, failure would bring Sellafield's reprocessing to a halt, for the company is installing no new capacity for storing either liquid effluent or Magnox waste.

Mr Chamberlain believes that the technology BNFL has researched and designed for such plants is just what the US government needs to accelerate its own clean-up programme. He says his many visitors from US government and industry to Sellafield have been impressed.

As UK demand for fuel services will not grow rapidly in the 1990s, the company has made two important commercial moves to internationalise its operations. One is to set up a subsidiary, International Nuclear Fuels Ltd, with separate headquarters at Risley, as a vehicle for organisations

overseas "to get closer to us", Chamberlain says.

Thus they can discuss such schemes as mergers, joint ventures and equity participation with civil-sector customers, unhampered by BNFL's defence activities for the UK Government. The French helped pioneer the idea with its Eurodif joint venture between utilities in uranium enrichment in the early 1970s, and more recently in its proposal to German utilities for shared investment in a French-managed reprocessing plant.

The second commercial move was to set up a US subsidiary, the Washington-based BNFL Inc. Its first project is the joint venture with Louisiana Energy Services in planning a joint enrichment venture in Louisiana. But another big goal is to bid for US radwaste management contracts in collaboration with US engineering companies, using Sellafield technology.

Both these plants are remarkable engineering achievements, run "cold" for many months before they handled radwaste to make sure they really are reliable and self-repairing, and can rid

## Reprocessing brings its own rewards

RARELY CAN an industry have won so big an overseas order and gained so little publicity for it, as British Nuclear Fuels this summer when it signed a series of long-term contracts for reprocessing spent fuel from seven German reactors.

The work, to be done beyond 2002, comes to nearly 1,600 tonnes, worth \$800m at today's prices. The small amount of attention it did receive in Britain was focused mostly on alleged risks of making Britain a bigger "nuclear dustbin", although the contracts require the German utilities to take back almost all the radioactivity.

Britain is scoring a considerable commercial success in the area of reprocessing. Only the French, unhampered by a protracted public inquiry system, can claim to be ahead of Britain.

From French technical progress Britain can take considerable comfort that its own ambitious schemes will work, for the two nations have simultaneously collaborated in the international market in spent nuclear fuel as well as competing in it.

Cogema in France reported to the Uranium Institute this month that its most advanced reprocessing facility UP3 at La Hague came on-stream commercially this summer, after successfully completing a pilot run of 100 tonnes of fuel. UP3 embodies such advances as zirconium vessels for dissolving the ceramic fuel.

The scale of the project can be gauged from the fact that more than 400 construction companies were engaged, and that the peak workforce exceeded 7,000.

UP3 is designed to treat 800 tonnes of spent fuel a year, and recover 8 tonnes of plutonium for recycling as mixed oxide (MOX) fuel, made in a plant Cogema plans to bring on-stream in 1992.

Britain's counterpart, the thermal oxide reprocessing plant (Thorp) at Sellafield, is scheduled for completion in another 18 months. As with UP3, Thorp's capacity for the first decade of operation has

Estimated UK fuel cycle costs (pence per unit)			
Stage	Magnox	AGR	PWR
Uranium	0.2	0.2	0.15
Hex conversion and enrichment	0.3	0.1	0.1
Fuel fabrication	0.2	0.2	0.1
Reprocess and waste management	1.0	0.8	0.15
TOTAL	1.5	1.1	0.5

already been sold.

The new German business - shared with the French - is for the second decade, when reprocessing costs are expected to reflect the fact that the plants have been amortised.

Mr Neville Chamberlain, BNFL's chief executive, is confident of keeping Thorp close to schedule and a budget of £1.55bn. Some associated facilities such as fuel receipt and storage are already in service, and the Windscale vitrification plant for treating Thorp's highly active liquid effluent, which uses French core technology, came on-stream this summer.

Mr Chamberlain believes

### Only the French can claim to be ahead of Britain

that before the end of the decade BNFL will be returning highly active wastes to its overseas customers, who account for two-thirds of Thorp's capacity in the 1990s.

To underpin this long-term nuclear business, BNFL has made a prodigious commitment to radioactive waste management at Sellafield totalling more than £1.8bn. As Mr Chamberlain puts it, "None of these improvements provide benefit to the customer, but of course he felt the consequent price increase".

In the late 1980s the company was obliged to add hundreds of millions of pounds in provisions for fuel already long spent - and even reprocessed.

Customers on cost-plus contracts became worried, culminating in the public fallout between BNFL and its biggest client, the former Central Electricity Generating Board, last year.

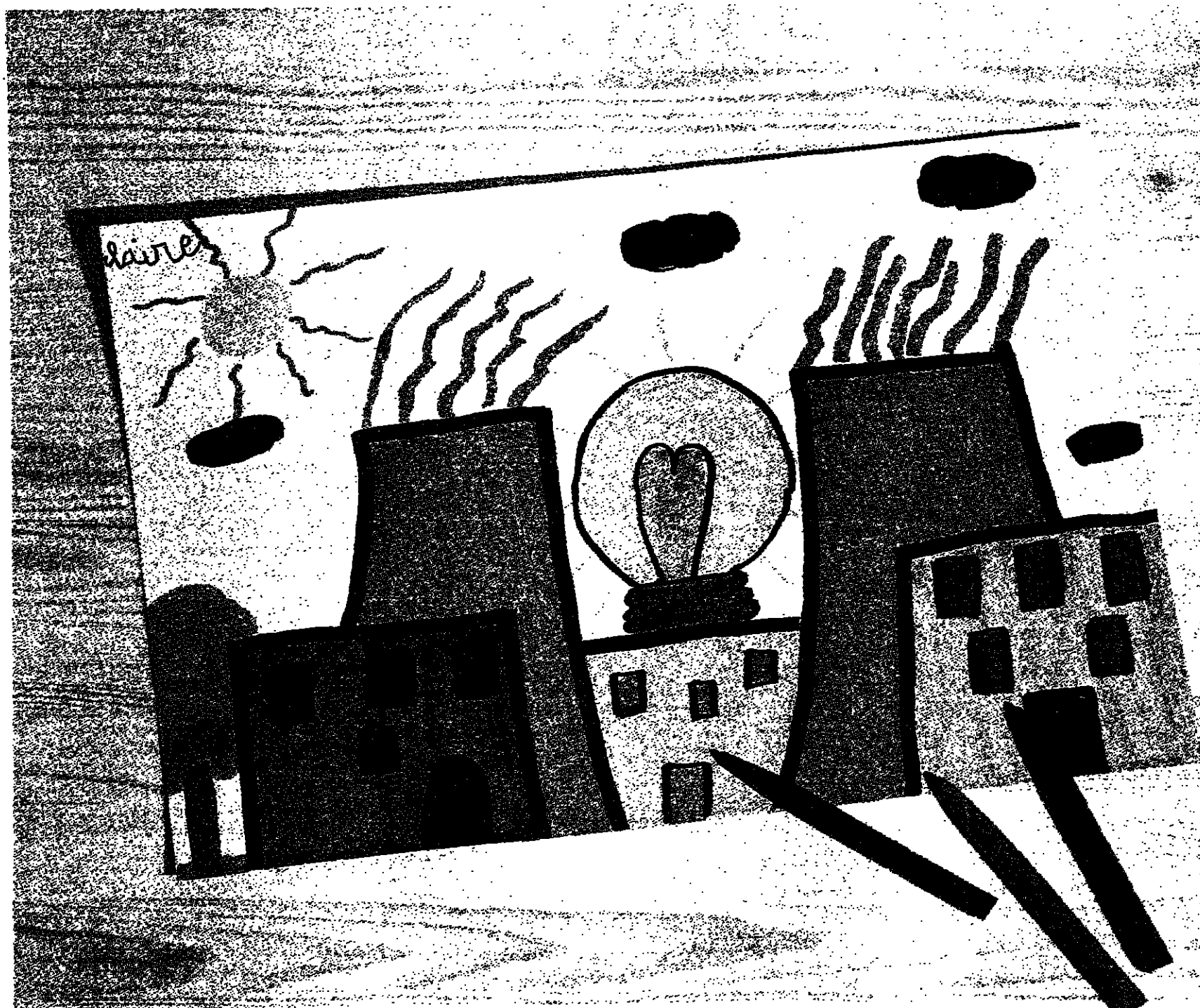
The table provides the basis for BNFL's latest prices including the long-term, fixed-price contracts for fuel services it is close to signing with Nuclear Electric and Scottish Nuclear. Under their terms, BNFL will be shouldering all risks associated with building and operating fuel facilities and subsequently decommissioning them - "all the managerial, technical and business risks".

The only circumstances in which prices are allowed to change are in meeting newly imposed safety or regulatory requirements, costs of which are to be shared between customer, contractor and government.

Prospects for further reprocessing business look promising, not least because of the rate at which some commercial reactors - notably in the Far East - are consuming fuel by running at high load factors. A new prospect has also opened in Eastern Europe, where state power companies are no longer obliged to return their spent fuel to the USSR.

The USSR is apparently reluctant to take some kinds of spent fuel. This may well be faulty fuel - leaking cans, for instance. To cater for what may be a substantial international business in "difficult" fuels - fuel from research reactors as well as damaged fuel - AEA Technology, the commercial arm of the UK Atomic Energy Authority, and BNFL have been co-operating in marketing a commercial scheme to make use of the demonstration fast reactor reprocessing plant at Dounreay.

It looks like good business and could give the plant a commercial future beyond the scheduled shutdown date of 1997, says Brian Eyre, AEA Technology's chief executive.



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## WORLD NUCLEAR INDUSTRIES 4

Governments find that they are pulled in different directions by the issues surrounding nuclear power

## The pressures on nuclear nations around the world

IN MARCH, the US Nuclear Regulatory Commission approved the generation of power from one of the most bitterly contested civil nuclear projects in the US.

The Seabrook plant in New Hampshire, now in the process of starting up, is 11 years behind schedule; costs have risen from \$973m in 1972 to \$6.45bn.

The station was fiercely opposed by politicians in neighbouring Massachusetts, including Governor Michael Dukakis and Senator Edward Kennedy, and attracted numerous protest rallies.

It also led to the first bankruptcy since the 1930s of an investor-owned electric power company, the Public Service Company of New Hampshire. In short, it became a cause célèbre for the pro- and anti-nuclear lobbies in the US.

But the go-ahead for Seabrook does not necessarily signal a revival in the US nuclear industry. The political and financial difficulties generated by the scheme help to show why US utilities remain wary of the nuclear route.

That said, other forces – environmental concerns, a new generation of nuclear designs and the Middle East crisis – could mean that by the mid-1990s, nuclear power may become slightly more acceptable politically. Proponents of the industry hope it may even see a handful of US orders around that time.

The US has more nuclear power stations than any other country – 112 have operating licences – and last year they generated just over 19 per cent of the nation's electricity.

But virtually no new nuclear plants are in the pipeline and all the plants ordered since the mid-1970s – more than 100 – have been cancelled.

Through the cancellations were due partly to changes in energy supply and demand – many coal-fired stations were also scrapped – they coincided with growing popular revulsion against nuclear power, because of worries about safety and waste disposal. These concerns were intensified by the accident at the Three Mile Island plant in March 1979 and later by the Chernobyl disaster in the Soviet Union.

In addition, the speed at which plants were built in the early 1970s raised questions over the quality of design and engineering and huge cost overruns.

However, advocates of

### UNITED STATES

#### All the plants ordered since the mid-1970s have been cancelled

nuclear power believe the industry might get a second chance in the 1990s.

The US is going to need more power plants. Lack of construction over the past few years, when electricity demand has been growing substantially, means the supply/demand balance is getting precarious in some areas.

Most new power stations are fuelled by gas and oil, but a prolonged rise in crude prices could make this a costly choice, and increase US dependence on imported fuel.

Coal is an obvious alternative, given the plentiful US supplies, but it has environmental complications: there is growing concern over acid rain and global warming associated with fossil fuels, while new US clean air legislation could push up costs.

The nuclear industry believes that all this is helping its cause, along with the improved designs of reactors, which it says will be simpler, safer and cheaper.

Both General Electric and Westinghouse are seeking generic approval for their designs from the Nuclear Regulatory Commission by the middle of this decade.

The industry also wants a simplified licensing system. This would involve just one permit; currently, one is needed to build the plant and another to operate it.

But even if the designs are better, nuclear still has to prove it can compete on cost with rival power sources. That requires, among other things, showing that plants can be built in a reasonable time. The industry insists this should not

be a problem, since new designs will be standardised models, rather than the custom-designed varieties of the 1970s, which produced endless construction problems.

Waste is another issue. The Federal Government is making slow progress towards the permanent disposal site it is supposed to be opening early next century. Efforts to carry out site tests in Nevada have been stymied by a lawsuit from the State Government.

Even if these obstacles were overcome, the nuclear industry would still require a degree of political support.

One of the thorniest political patches is at the State level. Nuclear proponents claim that State public utility commissions have frequently not allowed companies to reclaim large amounts of construction costs from consumers, and that this has made them wary of committing capital funds.

Perhaps even more serious are the rows over emergency evacuation procedures. It was a dispute of this type which held up Seabrook for so long, and a similar battle was the death of the Shoreham plant on Long Island, New York.

Construction of Shoreham began in 1973 and was completed in 1985. But it could not begin operating because New York State and the local county would not take part in emergency planning. By the time the wrangling ended in 1989, the utility and New York State had struck a deal to kill the plant: the state acquired it for a nominal \$1 and the utility was allowed to raise its rates.

The move was attacked at the time by the Federal Government as an "Alice-in-Wonderland decision totally contrary to calls for action on global warming and concerns about declining utility reserve margins in the north-east US."

That may be so, but it does underline the enormous political battle that the nuclear industry still has to fight.

For even if the public can be convinced that the dangers inherent in nuclear power are preferable to those of the greenhouse effect, the cry will still go up: "Not in my back yard!"

Martin Dickson

THE JAPANESE Government is striving for a nuclear consensus, but well-organised opposition to an increasingly ambitious plant construction programme has meant that this will not come cheap.

Japan's energy debate, which will determine prospects for the nuclear industry, has been clouded by increasing concern about greenhouse gases, and the inability of the Ministry of International Trade and Industry (MITI) and the Environment Agency to agree on an appropriate level for carbon dioxide emissions.

Aomori, the poorest prefecture on Japan's four main islands, has become a focus for the nuclear debate, having been selected as a site for nuclear facilities that other areas do not want. Work has already begun on an uranium enrichment plant, and is expected to begin soon on Japan's first recycling facility and waste repository.

MITI has a nuclear fund intended to create consensus by granting ¥18bn to towns around nuclear facilities, while a ¥3bn public relations centre funded by construction and nuclear engineering companies is being built near the Aomori site.

If acceptance is not achieved in Aomori, a review of national nuclear plans is likely. A recent MITI study of energy needs that concluded nuclear plants must increase from 35 to 75 over the next 20 years if the country is to meet expected energy demand and stabilise carbon dioxide emissions.

MITI expects that energy consumption will increase by about 35 per cent in the next 20 years, and in order to reduce carbon dioxide emissions, the share of non-fossil fuel energy should increase from the 1988 level of 15 per cent to 28.5 per cent by 2010.

The Environment Agency wants to stabilise carbon dioxide emissions at the present level by the year 2000, but MITI argues that an attempt to impose a limit now would hinder planned economic growth, and that an annual 1.3 per cent increase in emissions is necessary until the end of the decade.

A senior MITI official says that the ministry and industry have four priorities in developing nuclear power: improving safety, refining the handling of waste disposal, winning general public acceptance, and getting approval from residents near planned facilities.

about 30 per cent of electricity generated and 10 per cent of total energy used in Japan. The plan for 2010 is that nuclear plants provide 43 per cent of the electricity and 16.7 of total energy needs.

The MITI official says that, before Chernobyl, the industry was confident that long-term construction targets could be met, but "after Chernobyl, the movement [against] has become much stronger."

Aomori's popularity as a nuclear site dates back to a pre-Chernobyl pledge by former prime minister Mr Yasuhiro Nakasone to make the northern coastal region

"We will encourage enterprises and business to select these areas for new factories and shops, and we will build more public facilities like hospitals and schools," he says. Nuclear power accounts for

Japan's "nuclear peninsula". That promise is being partly kept, with plans to build two plants and by harbouring Japan's only nuclear-powered vessel, the Mutsu.

The vessel's maiden voyage, in 1974, was a disaster. Within minutes of the first power-up test, a radiation leak was detected and the voyage was abandoned, amid damning publicity.

Ports around the country refused to accept the Mutsu, until the Aomori fishing village of Sekinehama agreed after receiving considerable compensation. The vessel has its own port, while the local fishing co-operative received a new port and clubhouse and received ¥1.7bn in handouts.

Other communities have not been as accommodating. Fishermen opposed to the Aomori spent-fuel recycling facility have joined the anti-nuclear lecture circuit, while local elections are won and lost on the issue, particularly in areas close to proposed plants.

In response, the country's nine power companies, which each monopolise a given area, have targeted housewives and the young for their PR campaign.

Anti-nuclear sentiment has

new electro-nuclear re-equipment plan like that of 1973. If the oil price sticks at around \$30 per barrel for the foreseeable future, Mr Tinturier reckons that France would need to start construction of four new reactors between now and the end of the decade, barely faster than its pre-crisis plans.

Further ahead, EDF reckons that the current generation of reactors will need replacing between 2030-50, though just what kind of technology will replace them is the subject of intense political debate.

EDF and the CEA are attracted by fast breeder reactors, said to be able to extract 60 times more power from a given weight of uranium than the present generation of nuclear plants.

However, EDF's attempts to get a fast breeder to work have been fraught with difficulties. It has built the world's first industrial scale fast breeder, known as Super-Phenix, at Creys-Malville, south-east France, in a joint venture with West Germany and Italy. However, it is running over budget and has yet to produce power at a consistent and economic rate.

The Government has shown signs that its patience is running thin, and EDF officials privately fear that the Super-Phenix reactor could one day be

scrapped as an electoral gesture to France's small but growing environmental lobby. EDF reported a loss of FF4bn last year, partly a result of a drought which meant its nuclear plant was short of cooling water. More importantly, the utility's continuing losses reflect the Government's policy of holding electricity prices well below the inflation rate.

Electricity prices are set in renewable four-year operating agreements with the Government. The most recent agreement, which runs to the end of 1992, obliges EDF to hold prices at 1.5 percentage points below the inflation rate, as well as binding it to reduce its FF232bn debts by FF20bn.

In the event, the Government has squeezed EDF even harder than that. Last year's average price increases came out at 0.6 per cent, less than half the 1.5 per cent laid down in the original budget, which was itself based on an inflation forecast below the actual rate.

This has caused Mr Pierre Delaporte, EDF's chairman, to remark more than once that EDF's state shareholder appears to think it "indecent" for public service companies to make profits.

William Dawkins

has aroused high emotions in a country renowned for its clinical rationalism in problem-solving. The question played an important part in the 1978 general election and the defeat of the Social Democrats, when the leader of the Centre party, Mr Thorbjørn Fälldin, campaigned successfully on an anti-nuclear platform.

Continued on Page 5

ous aspects of the question which now dominates public debate. Most of the evidence available suggests that abandoning its nuclear industry would be costly to Sweden and would have a grave impact on the country's international competitiveness.

The trouble is that nuclear power has become crucial for the country's energy needs since its inception in the early 1970s. Just under half Sweden's electricity is now generated from its nuclear plants with most of the rest derived from hydropower. No obvious alternative energy sources are

available to replace nuclear at a comparable price and in sufficient supply. Investment in wind and solar power as well as the use of biomass technology has so far failed to advance. Oil and natural gas remain expensive substitutes which would have to be imported and would undermine Sweden's stringent environmental pollution laws by increasing atmospheric emissions.

The nuclear energy issue

SWEDEN is reputed to have the safest nuclear industry in the world, but it is committed to being the first country to dismantle its nuclear reactors. However, this autumn the Swedish parliament is due to reappraise its non-nuclear strategy and enormous pressure is building in favour of its abandonment. The manufacturing companies and blue-collar unions, in particular, fear lost markets and massive job cuts if the first two of Sweden's 12 reactors are shut in 1995-1996 as planned. Closure of the rest is expected by 2010.

But it remains unclear whether any compromise will be possible which can reconcile the aspirations of the powerful anti-nuclear movement and demand from both Swedish industry and the public for the relatively cheap energy which nuclear power provides. Over the past year an estimated 30 independent reports have been published on vari-

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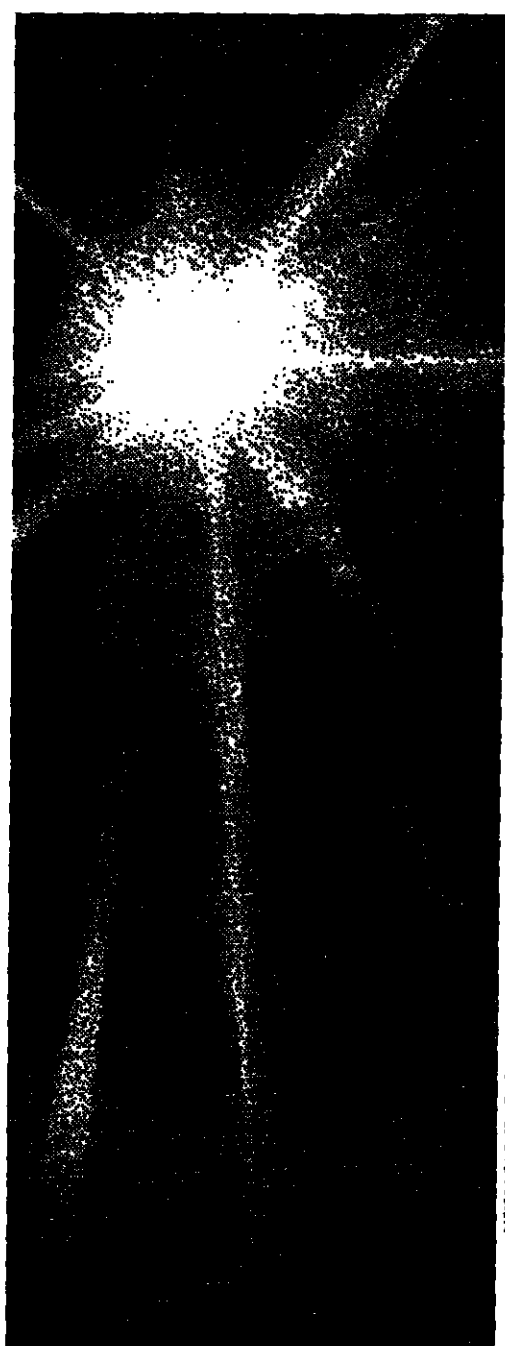
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### SWEDEN

#### Safest in the world, but heading for closedown – at a cost

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### No obvious alternative sources are available

available to replace nuclear at a comparable price and in sufficient supply. Investment in wind and solar power as well as the use of biomass technology has so far failed to advance. Oil and natural gas remain expensive substitutes which would have to be imported and would undermine Sweden's stringent environmental pollution laws by increasing atmospheric emissions.

The nuclear energy issue

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## WORLD NUCLEAR INDUSTRIES 5

THE West German nuclear industry is encountering uncertain times - a period of nervous excitement, mixed with foreboding.

More than four years after the Chernobyl disaster, the psychological fallout has not dissipated. Public support for a long-term withdrawal from nuclear energy (Ausstieg) has remained consistently strong since 1986, with over one-third of West Germans saying in opinion polls that they favour such a move.

The political and regulatory climate in which the West German nuclear industry operates thus remains one of the toughest in Europe. Although clamour for an immediate nuclear Ausstieg (never supported by more than about 10 or 12 per cent of the population) has waned slightly over the past four years, the industry has had to live with a series of damaging setbacks.

The Wackersdorf commercial reprocessing project, which always looked like a costly white elephant, has been abandoned, and the Kalkar fast breeder on the Lower Rhine is enduring an agonisingly slow death.

A scandal over nuclear waste transport has led to a thorough shake-up of that sector, the export market remains as difficult as ever, and in spite of the buoyant economy, and the flip to growth expected from German unification, hopes of further orders for German nuclear plants up to the end of the century have died. German unification did deliver the German nuclear industry a further commercial springboard into Eastern Europe: Kraftwerk Union, the nuclear manufacturer which has now been fully subsumed into Siemens as the giant electrical group's power generation division, has been at work for several years on building modernisation and maintenance orders for the Soviet Union.

The most immediate consequence of unification, however, has been negative. Mr Klaus Töpfer, the Environment Minister, said earlier this month that the existing nuclear reactors in East Germany are likely to be permanently shut down, while those still under construction will probably be abandoned.

This follows a series of revelations about poor safety and harrowing news about the risks of a 'German Chernobyl' at the reactor complex at Greifswald on the north German coast. Assurances that the

### WEST GERMANY Long-term opportunities offset by short-term difficulties

safety standards built into West Germany's light water reactors are hugely superior to those in East Germany have failed to reassure the public.

Three Soviet-designed light water reactors at Greifswald - the WVER 440 type - have already been closed this year, with one more scheduled to shut down. Another four slightly modernised reactors at Greifswald, under construction for 10 years, are unlikely to ever go on-stream. Plans for two larger WVER 1000 reactors at Stendal near Magdeburg seem almost certain to be dropped.

Mr Klaus Barthelt, the veteran former chairman of KWU, who stepped down last year, has kept up his call for further extension of nuclear energy to meet growing world demand. In 1961, when the first German nuclear power station went into operation, the world's population was 3bn, Mr Barthelt said earlier this year, it has now virtually doubled, and is on the way towards 12bn. Mr Barthelt has been propagating the somewhat minimalist line for several years now that the world's nuclear industry still has a future - even if Germany's has not.

Such refrains from nuclear industrialists have become increasingly desperate. KWU has been shedding its workforce because of diminishing business, and the share of nuclear contracts on its order book has dropped to less than half.

KWU has pooled its expertise in building pressurised water reactors abroad with Framatome, the French nuclear power company, with the new joint venture Nuclear Power

International which started at the end of 1989.

Franco-German co-operation in PWRs has been an aim of the nuclear industry for 20 years. But the eventual link-up was a sign of the pronounced weakness of export markets rather than strength. The nuclear industry believes that the share of nuclear electricity in German generating capacity has reached a plateau.

In West Germany, the percentage of the overall public electricity production has reached 40 per cent, but the figure for the whole of Germany will be lower, because of the importance of fossil fuel generation in East Germany.

The prospect of a sharp reduction in lignite-fired generation in East Germany for environmental reasons is causing no great enthusiasm in the nuclear industry. Orders certainly beckon for the makers of conventional power stations (where KWU of course also has a strong position). The prospective East German energy gap is likely to be met by a mixture of electricity sales from the West German regions and by a more modern coal- and gas-fired plant.

The signal for a far-reaching extension eastwards of the activities of West Germany's chief utilities was given in August with the clinching of a deal for RWE, PreussenElektra and Bayernwerk to take over East Germany's electricity industry. The three companies are to invest initially DM1.9bn in modernising and cleaning up East Germany's electricity sector.

As a compromise with the German Cartel Office, the three companies will share ownership of an electricity holding company with smaller German utilities, along with the French state-owned Electricité de France.

The prospect in the next decade of a second economic miracle east of the Elbe makes the East German areas extremely attractive to the entire European energy industry - including EDF. Yet the last few months show that in both East and West Germany the opportunities for the nuclear sector remain small in relation to future challenges.

David Marsh

THE explosion of the Soviet reactor at Chernobyl in April 1986 convinced Western nuclear industry leaders that a central ingredient was missing from nuclear regulation.

The circumstances which led to this disaster made it plain that every operator of a commercial nuclear plant was at the mercy of the weakest, most careless among them, and another serious accident could turn public opinion irrevocably against nuclear power.

Nuclear operators needed a club with a charter requiring each member to strive constantly for the highest standards of practice and training. Any idea that such standards could be imposed had been destroyed by Chernobyl.

The US operators had formed such a club after the accident at the Three Mile Island reactor in 1979. The Institute of Nuclear Power Operations (Inpo) in Atlanta, Georgia, to which every commercial US nuclear operator belongs, has enormously improved US nuclear safety and performance over the past ten years. Since Chernobyl, US and French industry leaders, with more than 160 commercial reactors between them, concluded that Inpo's principles must be extended to every nuclear operator in the world, now it had been made clear that a nuclear accident respected no national boundaries and that immense investment was at risk.

The outcome is the World Association of Nuclear Operators (Wano), inaugurated in Moscow in May 1988. Only two nuclear operators failed to attend this gathering - China and Romania. Neither has commercial reactors operating at present, and both are expected to sign up before they do.

Chairman and chief protagonist for Wano is Lord Marshall, until recently chairman of the Central Electricity Generating Board, who has effectively made it a full-time task since he was deposed as leader of the

### The overwhelming achievement has been the rapport with the USSR

UK nuclear industry last autumn. He undertook from the start the delicate diplomacy of persuading governments - particularly that of the USSR - to sacrifice some nuclear independence in order to make Wano work.

It was Lord Marshall's idea to avoid the considerable management risks of a single headquarters by dividing the club between four regional centres, each self-governing, to which its corps of members owe allegiance. Atlanta, with the experience of Inpo, was the obvious choice for North America. Moscow was obvious for the Eastern bloc. The others are Tokyo for the Far East and Paris covering western Europe, South Africa and South America. A small co-ordinating office has opened in London.

The overwhelming achievement of Wano has been the rapport established with the USSR, says Lord Marshall. Moscow's hosting of the inauguration was psychologically important in avoiding tempta-

David Fishlock reports on a concerted effort to improve safety

## The Chernobyl club: strong as the weakest member



Lord Marshall, chairman of Wano: undertook from the start the task of persuading governments to sacrifice some independence

tion by other members to attack the Soviets over Chernobyl. He says the Moscow centre is well staffed with a Russian in charge and a Czech as deputy. Wano has provided the computers which link it with other centres. But communication is mainly by telex to avoid the idiosyncrasies of the Soviet telephone system.

Wano's rules require every incident to be reported, in the confidence that it will not be publicised. "And it's working," Lord Marshall says. "Reports of incidents land on my desk every day." Wano has its own definition of an incident as an event which has had - or might have had - significance

for reactor safety. "Every time we get an event reported we know it's worth looking at. The 157 which had reached London by August included management errors, malfunctions, misinterpretations of signals. Most came from Atlanta or Paris but Moscow reported several incidents."

To sustain enthusiasm for reporting incidents, Lord Marshall has set Wano an ambitious target of international visits by nuclear operators to other countries, in quest of a common culture of nuclear safety. Before Chernobyl, there would be four or five visitors, including senior members of control room shift teams, and visits last for up to two

weeks. Anyone can put on an act for a day, he says, but in ten days the two parties are bound to talk about their real worries. Lord Marshall does not want administrators, bureaucrats, or anyone who is not directly responsible for nuclear operations involved.

Since the first visit just a year ago, when a US team went to the Zaporozhye and Leningrad stations in the USSR, 41 such visits have been made, of a programme for 50 by the end of the year. One result is plans for a still more detailed kind of exchange, lasting three months, planned privately between Zaporozhye and Duke Power in the US.

His programme calls for the senior staff of every Eastern bloc nuclear station to make at least one visit to another region, and to host at least one

visit, before Wano's second birthday next April. Typically, there would be four or five visitors, including senior members of control room shift teams, and visits last for up to two

Continued from Page 4

A 1980 national referendum result indicated nearly 60 per cent of Swedes favoured the eventual closure of their nuclear industry.

But now the mood has changed significantly as fears have evaporated. A public opinion poll in Sweden carried out by the authoritative SIFO organisation last month found that as many as 58 per cent of people questioned favoured the continued use of nuclear power after the planned closure date of 2010. Just over a quarter supported the present government line of a phased rundown of the industry by that date.

The nuclear industry lobby has not been slow to emphasise its positive contribution to Sweden's energy needs. The International Energy Agency maintains that the country has some of the safest reactors in the world. In the aftermath of Chernobyl the Swedish government ordered an inquiry

into conditions in Sweden's reactors, built between 1972 and 1986: it concluded there were no technical risks of a similar accident.

Indeed, the country's reactors are superior in design, strictly supervised and run by highly competent personnel. Sweden has no recorded instance of an accidental

### The mood has changed significantly

release of radioactivity into the atmosphere. This suggests that the Swedish industry is the least dangerous in the world.

The real threat lies in what might happen in the existing nuclear reactors that lie across the Baltic sea in eastern Germany and the Soviet Union. Some experts believe that the Swedish nuclear industry could provide the expertise for

a radical overhaul of those reactors which could endanger the environment of much of northern Europe.

What worries many on both sides is that the sacrifice of the country's cost effective, efficient and safe nuclear plants will make not a scrap of difference to international opinion, particularly among the European economies like France, Germany and Britain - Sweden's main trade rivals.

Moreover, the experts now agree that the closure deadline of 2010 is unrealistic. When first proposed it was based on the assumption that the lifespan of Sweden's nuclear plants would be around 20 years. Now it appears that most will be able to generate energy for at least 40 years. This means the shutdown programme would replace nuclear plants operating at full capacity, not obsolete ones reaching the end of their production.

Robert Taylor

## Can we seriously meet our energy demands without nuclear power?

1989	INDUSTRIALISED COUNTRIES	DEVELOPING COUNTRIES
POPULATION	1	1
ENERGY	1	1
2020	INDUSTRIALISED COUNTRIES	DEVELOPING COUNTRIES
POPULATION	1	1
ENERGY	1	1

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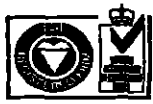
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## WORLD STOCK MARKETS

AUSTRIA			FRANCE (continued)			GERMANY (continued)			ITALY (continued)			NETHERLANDS			SWEDEN			CANADA		
High	Low	September 21	High	Low	September 21	High	Low	September 21	High	Low	September 21	High	Low	September 21	High	Low	September 21	High	Low	September 21
5,430	5,430	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730
7,300	7,300	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900
2,500	2,500	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000
19,600	19,600	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000
14,300	14,300	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500
2,300	2,300	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400
1,400	1,400	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700
3,500	3,500	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700
250	250	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115
1,510	1,510	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700
770	770	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425
7,500	7,500	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300

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CANADA			NEW YORK			INDICES			STANDARD AND POOR'S			NEW YORK ACTIVE STOCKS			TRADING ACTIVITY			CANADA			TORONTO		
High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close	High	Low	Close
2500	2500	1,350	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730	1,350	1,350	2,730
7,300	7,300	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900	1,350	1,350	4,900
2,500	2,500	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000
19,600	19,600	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000	1,350	1,350	10,000
14,300	14,300	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500	1,350	1,350	5,500
2,300	2,300	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400	1,350	1,350	1,400
1,400	1,400	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700
3,500	3,500	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700
250	250	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115	1,350	1,350	115
1,510	1,510	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700	1,350	1,350	700
770	770	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425	1,350	1,350	425
7,500	7,500	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300	1,350	1,350	4,300

## ANY QUESTIONS

WHO IS THE LARGEST PRODUCER OF TOOTH PASTE IN GERMANY?

WHAT IS THE CAPITAL OF ECADOR?

WHICH ADVERTISING AGENCY WORKS ON THE HEINZ BAKED BEANS ACCOUNT?

WHICH COUNTRIES BELONG TO THE EMS?

WHO IS THE FINANCE MINISTER OF JAPAN?

WHAT WAS IBM'S TURNOVER IN 1988?

ARE THERE ANY PLANNED EEC DIRECTIVES WHICH WILL AFFECT MY BUSINESS?

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# CURRENCIES, MONEY AND CAPITAL MARKETS

## MONEY MARKETS

### Managing the lira

A FEATURE in the currency markets which has received little attention recently is the extraordinary volatility of the Italian lira. While the dollar dipped close to an all-time low, the lira fell last week to the bottom of the European Monetary System grid, before rebounding as market rates firmed.

Behind this unusual movement has been an attempt by the Bank of Italy to offset the impact of higher oil prices by injecting liquidity into the money markets. At one stage

by surprise. "We expected the lira to fall, but over a six months period, not just one," said Dr Mario Noera of Euro Mobiliare in Milan. After the initial surge in oil prices, yields on Italian bonds rose by 120 basis points. This threatened the Bank of Italy's ability to sell the massive amount of paper to the market needed to finance Italy's huge public sector deficit.

The response of the Bank has been to boost liquidity, thus depressing yields and allowing the debt to be taken up.

But the impact of this strategy has been to weaken the lira, and at least twice last week the Bank of Italy was forced to intervene in the currency markets.

A period of relative lira strength is expected ahead of the next debt auction at the end of September.

However, if short-term rates were to rise, the impact of the auction the lira could be depressed and the Bank of Italy forced to raise official rates.

UK clearing bank base lending rate 15 per cent from October 5, 1989

during the beginning of this month, daily bank reserves were estimated to have more than doubled to £100bn.

The increase in liquidity resulted in a collapse in short-term rates which, in turn, naturally has forced the lira to fall faster. The weakness in the lira took many analysts

## POUND SPOT - FORWARD AGAINST THE POUND

Day's Spot	One month	Three months	Six months	One year
US	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
DM	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Yen	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Swiss	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
French	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Italian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Spanish	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Portuguese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Belgian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Dutch	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Australian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
New Zealand	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
South African	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Japanese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Chinese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Indian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Pakistani	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Sri Lankan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Thai	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Malaysian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Singaporean	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Indonesian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Philippine	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Tagalog	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Visayan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mindanao	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Palawan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Moroccan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Algerian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Tunisian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Libyan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Egyptian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Sudanese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Ethiopian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Somali	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Kenyan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Ugandan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Rwandan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Burundian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Tanzanian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Zimbabwean	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Botswana	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Lesotho	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Swaziland	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Namibian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Angolan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mozambican	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Malagasy	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Madagascan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Comorian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mayotte	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Reunion	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mayotte	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Reunion	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Day's Spot	One month	Three months	Six months	One year
US	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
DM	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Yen	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Swiss	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
French	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Italian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Spanish	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Portuguese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Belgian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Dutch	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Australian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
New Zealand	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
South African	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Japanese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Chinese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Indian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Pakistani	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Sri Lankan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Thai	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Malaysian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Singaporean	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Indonesian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Philippine	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Tagalog	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Visayan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mindanao	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Palawan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Moroccan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Algerian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Tunisian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Libyan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Egyptian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Sudanese	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Ethiopian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Somali	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Kenyan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Ugandan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Rwandan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Burundian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Tanzanian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Zimbabwean	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Botswana	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Lesotho	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Swaziland	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Namibian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Angolan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mozambican	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Malagasy	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Madagascan	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Comorian	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mayotte	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Reunion	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Mayotte	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370
Reunion	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370	1.9370-1.9370

## EXCHANGE CROSS RATES

Spot	1	3	6	12	18	24	36	48	60
US	1.946	1.913	1.876	1.840	1.804	1.768	1.732	1.696	1.660
DM	3.965	3.711	3.54	3.385	3.23	3.075	2.92	2.765	2.61
Yen	1.094	1.084	1.074	1.064	1.054	1.044	1.034	1.024	1.014
S F Fr.	1.026	1.016	1.006	0.996	0.986	0.976	0.966	0.956	0.946
S F S.	0.417	0.407	0.397	0.387	0.377	0.367	0.357	0.347	0.337
C S	0.325	0.315	0.305	0.295	0.285	0.275	0.265	0.255	0.245
H Fl.	0.649	0.639	0.629	0.619	0.609	0.599	0.589	0.579	0.569
Lira	0.649	0.639	0.629	0.619	0.609	0.599	0.589	0.579	0.569
C S	0.649	0.639	0.629	0.619	0.609	0.599	0.589	0.579	0.569
B Fr.	1.672	1.662	1.652	1.642	1.632	1.622	1.612	1.602	1.592

US = US Dollar, DM = Deutsche Mark, Yen = Japanese Yen, S F Fr. = Swiss Franc, S F S. = Swiss Franc, C S = Canadian Dollar, H Fl. = Hong Kong Dollar, Lira = Turkish Lira, C S = Canadian Dollar, B Fr. = British Franc



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## Contd

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
100	100	100	100	100	100	100	100

## Garages and Distributors

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## NEWSPAPERS, PUBLISHERS

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## PAPER, PRINTING, ADVERTISING

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## PROPERTY

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## PROPERTY - Contd

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## TOBACCO

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## TRANSPORT

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## INVESTMENT TRUST - Contd

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## SOUTH AFRICA

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## TEXTILES

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## INVESTMENT TRUST - Contd

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## FINANCE, LAND, ETC

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## OIL AND GAS - Contd

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## OVERSEAS TRADERS

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## PLANTATIONS

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## MINES - Contd

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## THIRD MARKET

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## MISCELLANEOUS

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## REGIONAL &amp; IRISH STOCKS

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## TRADITIONAL OPTIONS

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## OILS

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## MINES

Market Cap	Stock	Price	Week	Change	Dividend	City	Time
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## FT Share Service

The following changes have been made to the FT Share Information Service:  
 Additional: Anglian Water 6 7/8  
 Index-Linked Loan (Ord. & Warrants) (Oil & Gas)  
 Delistings: Gibbs & Dandy Ordinary  
 shs.(Buildings).







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4pm prices  
September 21

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## MONDAY INTERVIEW

## Builder of financial bridges

Michel Camdessus, managing director of the IMF, talks to Peter Riddell

Mr Michel Camdessus, the managing director of the International Monetary Fund, has a gaunt, sculptured face, a high forehead and a slightly tilted nose. He is in his Washington office. He has named the figure the unknown economist - a suitable irony by the head of an institution which has been widely criticised round the world as the faceless harbinger of austerity.

Yet in his nearly four years at the IMF, Mr Camdessus has sought both to make it better understood and to assert its central place in the international financial system. His style is naturally open, his occasionally slightly hesitant English does not disguise his astuteness and precision.

When Mr Camdessus took over in early 1987, the IMF had just emerged from the first stages of the Third World debt crisis. But the Fund was facing a challenge in its role as coordinator of economic policies from the Group of Seven leading industrial countries.

As he prepared for the current IMF and World Bank annual meetings, Mr Camdessus's message was that the Fund is very much at the centre of the stage.

"More and more we are going to monitor a very diversified world. We will have the major pillars, the US, EC and Japan. But we'll also have what was so far a kind of black hole in the system - eastern countries and the Soviet Union. There will be a diversified universe, not unified by the dollar or a bipolar system. And the centre is the IMF. The work of the institution at the centre will grow in importance."

The regular meetings of the G7 ministers still determine most key financial decisions. But Mr Camdessus has ensured that the IMF is involved. "We have a permanent dialogue with the major countries on their economic policies."

For a very long time, he acknowledges, there was "criticism of the asymmetry of surveillance and the conditionality of the Fund - what you did with the US was not relevant as you didn't have leverage over their policies (as a non-borrower)."

"Now the G7 have much tighter, more regular surveillance. Two or three times a year we visit them, review their policies. And we put in motion the system of peer pressure among themselves."

This surveillance, Mr Camdessus stresses, is "also a way of establishing a bridge between the G7 and our global surveillance. The G7 work on co-ordination of policies is a significant contribution to the evolution of the international

monetary system. It is part of the unfinished business of how to correct the disorderly floating of exchange rates. We have discovered that there are many things that matter at least equally: fiscal policies, structural policies and broader surveillance of all of them."

Mr Camdessus sees the Fund as not just responding to immediate financial problems but also as assisting in long-term adjustment. "We had to find ways of putting more emphasis on the need for sustained growth, while protecting the world against inflation. While trying to have a good control on demand, we should put more emphasis on supply and structural adjustment for growth."

His views developed during the early 1980s when he served as the Finance Ministry's senior civil servant during the hectic policy changes of the period. Mr Camdessus is clearly pleased that the G7 heads of government decided at their Houston summit in July to ask the IMF to convene an international study of the needs of the Soviet economy and how the West might assist.

He acknowledges the difficulties involved in spite of "the full contribution of the Soviets, in gathering the best possible information. But it is very little because very little is available which could now be

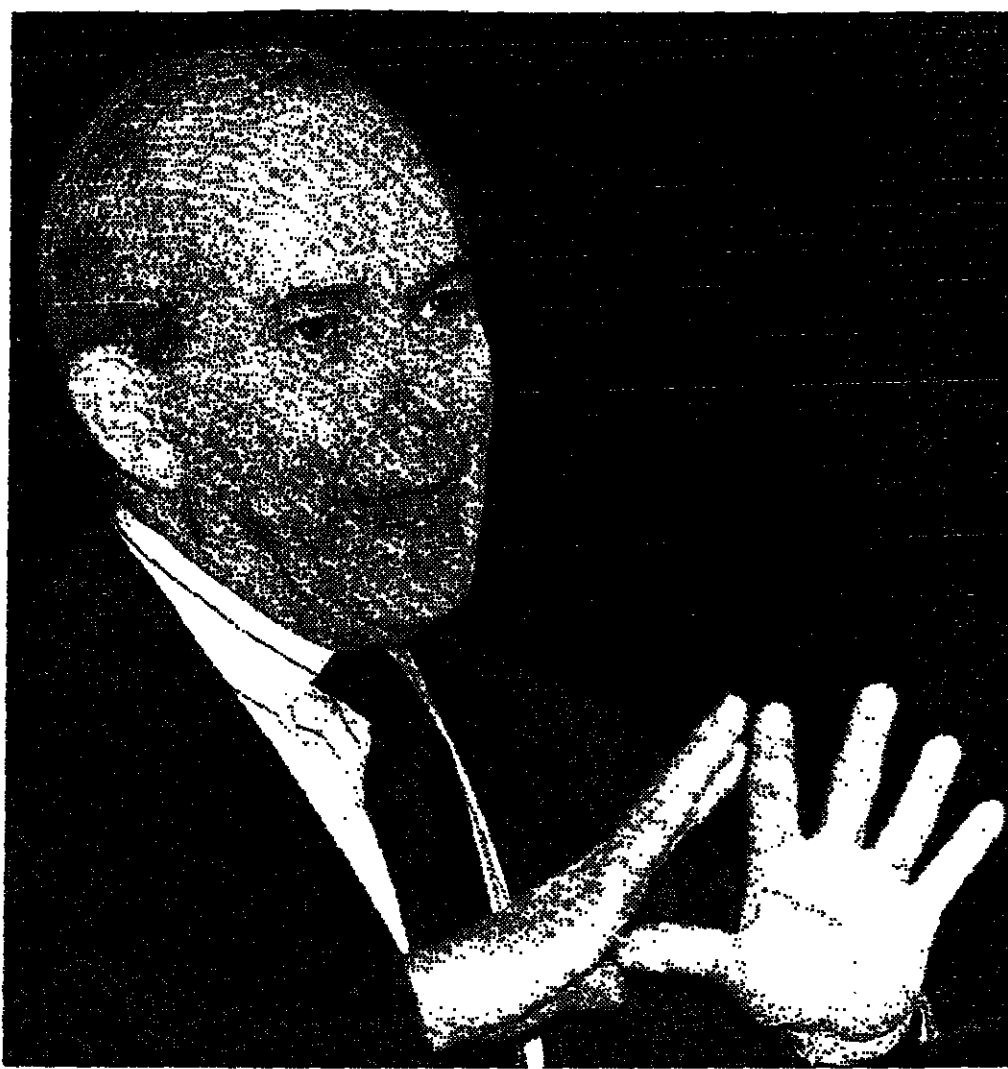
efficiently utilised in handling the process of reform. The system has not been attentive to the elements for managing a market economy."

A Soviet group is attending the meetings as "special invitees and its membership of the IMF is now a live issue, though it has not yet been official application yet. Mr Camdessus notes that, "this question could be raised at any time. Nobody has forgotten here that the Soviet Union was a founder member of the Fund,

efficiently utilised in handling the process of reform. The system has not been attentive to the elements for managing a market economy."

What we are looking at with eastern countries is not a 19th century-like *laissez faire* but a new and better government. The modern economy cannot work without government but it needs a new form of government, not intervening on matters well dealt with by the private sector, but making sure that competition works effectively and that a financial structure is well in place. You simultaneously have to reduce the size and intervention of government and to improve its interventions where they are indispensable.

"We are helped in handling the problems of eastern countries by our experience with the rest of the world. Latin



'We are going to monitor a very diversified world'

American countries were said not to be socialist but they were tremendously dirigiste - and nothing was as similar to Poland as Argentina. The same kinds of rigidity, of maladjustment, were quite widespread."

## PERSONAL FILE

1933 Born in Bayonne, France. Educated at the University of Paris with postgraduate degrees in economics at the Institute of Political Studies and the National School of Administration.

1960 Joined the Treasury in the Ministry of Finance and Economic Policies. In the late 1970s and early 1980s, he chaired the Paris Club of creditor nations for six years.

1982 Director of the ministry.

1984 Appointed governor of the Bank of France.

1987 Appointed managing director of the IMF.

and was vice-president of the Bretton Woods conference. History has delayed a little bit their membership."

To balance these challenges, Mr Camdessus has been preoccupied with the long standing debt problem, about which he is cautiously optimistic.

"We have now equipped ourselves with the Brady strategy [named after the US Treasury Secretary and launched 18 months ago to deal with commercial bank debt], which if fully applied by countries can really transform the debt crisis into a manageable problem."

"The experience we have had with Mexico, the Philippines, Costa Rica, Morocco - and tomorrow possibly Brazil and Argentina - gives me confidence that it can work. I would be happy if we were able to convince the banking community to see there a window of opportunity to normalise relations with debtors."

The Gulf crisis has, of course, had a wide-ranging effect on the IMF. "With the major exception of three countries which are net gainers - Mexico, Venezuela, Nigeria - the IMF has no programmes in general with beneficiaries (of the rise in oil prices). But almost 50 countries have programmes with the IMF. For them this is a shock, more or less important according to the structure of their balance of payments. People are urging us to create a new oil facility with low conditionality and so on."

There is a big contrast with the first oil shock of the mid-1970s. Then the IMF was "confronted with a quadrupling in the price of oil, but now this is not the case. Then there were large deficits in the balance of payments, now we have almost 50. So the question is completely different. We are in a situation allowing us to try to tackle the programmes in a more conditional fashion, to

## It is no time to be singing in the rain

Bankers, according to the old joke, are people who lend you an umbrella when the sun is shining and ask for it back at the first hint of rain. Now, it seems, the joke has been relegated to a mere half-truth. Assiduous readers of the Financial Times will have observed last week that Japanese banks have been going cap in hand to their own customers pleading for capital. Thus have centuries of financial custom and practice been turned on their head.

Nor is this a case of the Japanese being inscrutably ethnic. Chase Manhattan may not have asked specifically for an umbrella, but when a bank denies that it is having difficulty refinancing its IOUs, as the big US bank did on Friday, the markets tend to regard the statement with the scepticism they otherwise reserve for government denials of imminent devaluation.

Indeed, bankers everywhere are feeling the pain. Not least at Midland Bank, which saw its shares fall by 12 per cent on Thursday for no better reason than that when people are nervous about the market they are even more nervous about the ailing British clearer. Alas, poor Midland; and it is little consolation to its battle weary executives that the much richer Industrial Bank of Japan saw its share price fall 10 per cent on the same day.

Sympathy for bankers is an indulgence that many will feel inclined to forgo just for the moment. Yet the bankers' problem is one that sooner or later will affect us all, since it has the capacity to turn a mild recession into something worse. So why is it that the stock markets are so nervous about the banks? And what has caused the conventional wisdom about bankers to start falling apart?

The balance of power between banks and their corporate customers has shifted partly because large companies across the world have enjoyed several years of unbroken profitability. But while corporate balance sheets have been strengthened, bank balance sheets have remained under pressure. Not only do the rating agencies now apply lower



JOHN PLENDER

ratings to the big banks than to many of their clients; the markets have access to as much financial data about the world's largest companies as the banking community. Consequently it pays the industrial giants to cut out the banking middleman and go direct to the markets for funds.

The outcome is that the banks have lost much of their most creditworthy business just when they confront increased competition as a result of liberalisation. There are simply too many banks chasing too few profits. Against that background the only way individual banks can hope to make an adequate return on capital is to take greater risks - something that spells disaster for banks in the aggregate.

That is how Chase came to lend to flamboyant New York real estate man Donald Trump; how Midland took a premature and costly gamble on falling interest rates, while expanding its corporate lending at a heady pace; why Japanese banks have racked up a reported \$4bn of non-performing loans in US leveraged buy-outs; and why Sumitomo Bank financed textile trader Itohan on its costly borrowing binge in the Japanese property market. When the going was good the borrowers all appeared to have the answer to the bank-

ers' prayer. But not any more.

The consequences can be seen in the present pattern of share prices. Last week in the UK the cash-rich enjoyed relative strength, while the friends of the financial engineers were savaged by bears. The acquisitive industrial materials concern Cookson Group, debt-laden property developer Rossmore and the ambitious Beazer construction group were among the worst casualties - as were their bankers.

At times like this the financial community is not kind to those who look for fresh finance. But will the industrial community be any more charitable to financiers who come knocking on their door, as the Japanese banks have done? Maybe, since industrialists have not yet been trained to deny people umbrellas. But some might wonder whether it is sensible to require banks to strengthen their capital ratios, as the Bank for International Settlements now requires, when the banks' profits are being eroded by increased competition. More capital chasing dwindling profits will simply increase the temptation for the more hard-pressed to take even bigger risks. Others will be tempted to contract their balance sheets at precisely the moment that recession is applying a vice of its own.

That in turn raises an interesting question about the shareholding relationship between banks and industry. At present, the banks protect commercial banks from takeover by non-banks on the ground that non-bank owners might be less sensitive to the interests of depositors. Yet the history of the past decade suggests that the reverse is likely to be true: General Electric, Marks & Spencer and Toyota have stronger business confidence and better management than their bankers. Would it not make more sense for the cash-rich industrialists and retailers to recapitalise the improvident bankers via takeovers?

Rather than the taxpayer, when governments are forced to nationalise the banks in the Japanese property market, the prudent taxpayer should start building an ark.

## Half-baked proposals based on neo-libertarian fantasies

Suppose Neville Chamberlain had refused to appease Hitler and the Second World War had been avoided. The social solidarity created by total war would not have occurred, the Labour Party would probably not have won a landslide victory in 1945. What kind of welfare state would the UK have created? Would nearly all hospitals be publicly owned? Would most pupils be state-educated?

These may appear irritatingly hypothetical questions. But they do have relevance because a vocal element of the Conservative Party would like to see the socialist legacy of the 1940s completely erased during the 1990s. They favour a return to 19th century *laissez faire* and Samuel Smiles's self-help.

The tendency is best represented by the No Turning Back group of right-wing Tory MPs - a faction which includes Mr Peter Lilley, the Trade Secretary, and several junior ministers. The group's latest pamphlet, "Choice and Responsibility: The Enabling State, urges the government to intensify the assault on the 'very concept of individual dependence on state provision of health care, education and social security'."

In a strange way the pamphlet invites ridicule. It seriously suggests that Britain should draw inspiration from Hong Kong and Singapore and seek a future as a "kind of free

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Michael Prowse on the welfare state

port linking Europe and the world..." It describes the achievements of the Thatcher government as "virtually unparalleled in British political history". It defends privatisation as a general policy on the grounds that British Airways offers a better service.

Factual errors are even more alarming. The MPs claim that "In 1979 the British government spent a higher proportion of Gross Domestic Product than any of those who are now our European Community partners. Now we spend less."

The truth is rather different. The Tories did not inherit a European Leviathan from Labour. OECD figures show that in 1979 public spending as a percentage of GDP was lower in Britain than in West Germany, France, Italy, Belgium, Denmark, Ireland and the Netherlands. In most cases the gap was considerable.

Yet in spite of its inaccuracy, hyperbole and naivety, the No Turning Back group's pamphlet poses valid questions. The welfare state of the 1940s has no God-given right of exis-

tence. Reforms which genuinely offer the prospect of better quality at lower prices deserve serious consideration.

The MPs, however, appear to start from the assumption that state welfare can be justified only by arguments about social justice - arguments which in their view are thoroughly misguided. They seem wholly unaware that there are many technical reasons why heavy state involvement in welfare is necessary. For the detailed arguments see *The Economics of the Welfare State* by Dr Nicholas Barr (Weidenfeld and Nicolson 1987).

To take one example, the No Turning Back group advocates a big extension of private insurance to cover the risk of unemployment. But it is no accident that private markets have not evolved in this field even in the US. Private insurance only works well in the absence (among other preconditions) of "moral hazard": when policyholders cannot influence the likelihood, timing or magnitude of claims.

But the way a person behaves can greatly influence the risk of redundancy and the duration of unemployment. A subsidiary problem is that the risks insured are not independent claims are likely to be unacceptably bunched because unemployment rises and falls according to the nation's macro-economic health.

Similar technical problems exist in most other parts of the

welfare state. Public sectors throughout the developed world play a large role in health care, education, pensions and so forth not because they are gripped by an outdated Marxist ideology but because they can often perform these tasks more efficiently than private markets.

Welfare states can and will evolve, but the search for increased efficiency is probably best pursued within a public sector context. This, after all, is the approach favoured by moderate Tories, such as Mr Kenneth Clarke, the Health Secretary.

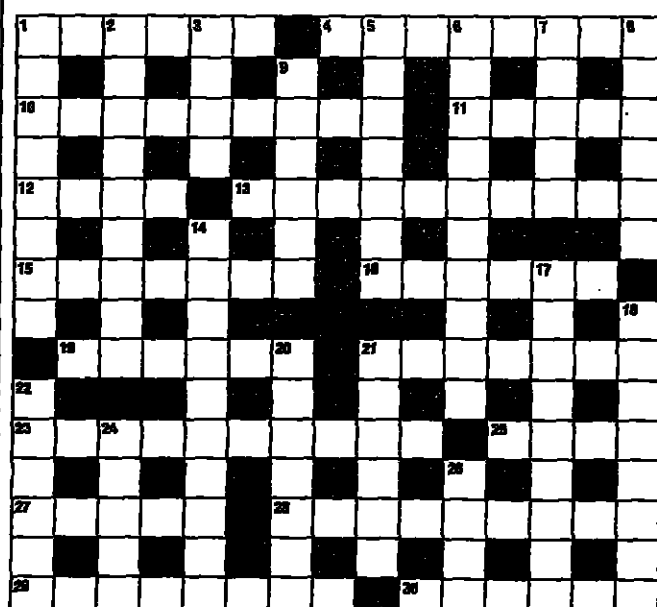
European considerations, which the No Turning Back group willfully ignores, only reinforce this conclusion. It is simply not credible to argue that Britain has a future as Europe's free market. Hong Kong, Economic and political integration within the European Community is bound to accelerate. The UK thus needs to create education, health and social security systems that mesh easily with those on the Continent - which are invariably public sector run.

Half-baked proposals based on the neo-libertarian fantasies of US think-tanks (which are largely ignored in Washington) no longer serve a useful purpose. If the No Turning Back group wants to make a serious contribution, it should send fact-finding missions to the capitals which count - Bonn, Paris, and Brussels.

JOTTER PAD

## CROSSWORD

No. 7,349 Set by DANTE



- ACROSS
- To tease a poor lad is ill mannered (6)
  - False profession (8)
  - They spend their time together (4-5)
  - Pompous colonel is an old gasbag (5)
  - It may hold the garden spray (4)
  - Parties of runners? (10)
  - The personification of cunning (7)
  - Ancient Greeks were riddled by it (6)
  - Dormant fish turned into a snake (6)
  - This turns out to sum up Panama, for example (7)
  - Cowardly sailor gets fever (6)
  - Juliet's town is just not on for her (4)
  - Wines for import and export (5)
  - Timber which may be put to striking use? (9)
  - To cuss in a most lascivious way (9)
  - Listener following close win (5)
- DOWN
- Hope for the lost and sick (8)
  - Sweets that score highly? (5-6)
  - Fabric that's stiff or limp (4)
  - Object to Ernest's replacement (7)
  - Set meal and free bed at hotel (5,5)
  - They are driven to join things (5)
  - Reveal an outdated attitude (8)
  - Wait for a race to finish (6)
  - Runner so research reveals (10)
  - On board the first Lieutenant may be most important (6,3)
  - One naturally separated from the rest of humanity (8)
  - They took over from the night shift (7)
  - Egg - how nice it may be scrambled (6)
  - Limited in one's outlook (8)
  - Grub is right at the centre of a burning issue (5)
  - Whisky drinkers may say it is just a question of time (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 6.

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19th September, 1990

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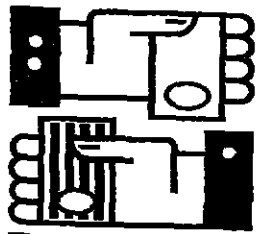
الشرق الأوسط

## FINANCIAL TIMES SURVEY

# THE WORLD ECONOMY

SECTION III

Monday September 24 1990



The Gulf crisis is a reminder that growth and prosperity have fragile foundations. But even before

Iraq's invasion of Kuwait, there were signs of tension in the global economy, tempering the euphoria that followed communism's collapse, writes Peter Norman

## Back to earth with a bump

Mr Saddam Hussein has brought the world economy back to earth with a bump.

Iraq's invasion of Kuwait at the beginning of August has put on hold hopes that the 1990s might usher in a new world order, founded in the eclipse of communism and generating prosperity in which all mankind might share.

Instead of considering how best to use the "peace dividend" arising from the decline in east-west tension, policy makers are again having to wrestle with the dislocations of an oil supply shortfall and the imponderables of conflict between nations.

From an economic point of view, however, the euphoria that greeted the new decade was beginning to look tarnished well before the Iraqi President launched his tanks against Kuwait.

● Inflationary pressures in the industrialised world have been stubborn, despite continued adherence to tight monetary policies and a gradual slowdown in economic growth. ● Financial markets, especially in the US and Japan, have shown increasing signs of fragility. ● Long term bond rates rose

sharply during the winter, highlighting the problem of insufficient world savings and casting doubt on future investment growth.

● The liberalisation of eastern Europe - although one of the most uplifting episodes in the history of mankind since the Second World War - has exposed a raft of economic problems as the Soviet Union and its former eastern bloc satellites set out along the uncharted path to a market economy.

Over the past decade, there has been uneven progress in solving the seemingly intractable problems of poverty, population explosion and indebtedness in many parts of the Third World.

More recently, unresolved differences among the world's major powers over agricultural subsidies have highlighted how protectionist pressures continued to threaten prosperity in industrialised and developing countries alike.

Even in the 24 wealthy industrialised member states of the Organisation for Economic Co-operation and Development, a total of 25m people are unemployed. Yet before the crisis in the

Middle East, it was possible to give the world economy the benefit of the doubt.

Growth was in its eighth consecutive year, promoted by enhanced consultation and co-operation among economic policy makers in the leading industrial countries of the Group of Seven.

Imaginative initiatives such as the 1992 programme for a barrier free market in the European Community, the creation of a free trade area between the US and Canada and the reunification of the two Germanies acted as an extra spur to business confidence.

Above all, the free market ethos appeared decisively to have gained the upper hand over state control. Nations deregulated and modernised their economic structures to tap the capital that flowed around the globe, spreading growth and prosperity.

President Saddam's demonstration that the world is still a dangerous place has eclipsed rather than suppressed these positive aspects of the world economy.

Indeed, it is important to remember that the calculations and extrapolations of economists point to slowdown, not recession, as a result of events in the Middle East.

The increase in the oil price from July's low of around \$16 a barrel will add to inflation. But providing there is not a serious escalation of the crisis, most nations do not seem to be threatened by recession or "stagflation" - the mix of no growth and high inflation - that afflicted the world after the two oil crises of 1973 and 1979.

Oil was cheap before the latest crisis - economists calculate that oil halved in value between 1980 and this summer in terms of purchasing power of manufactured goods - and most nations had reduced their dependence on imported oil compared with the late 1970s.

Moreover, emergency reserves are plentiful: the OECD countries have sufficient stocks of oil to satisfy demand for 99 days.

The International Monetary Fund has calculated that if oil prices stabilise at \$25 a barrel, the industrial countries as a



group could expect growth to be cut by around ¼ of a percentage point this year and next, while consumer price inflation would increase beyond forecast levels by around ¼ point this year and between ¼ and ½ points in 1991.

Such forecasts may be too sanguine. The oil price could settle at a higher level. Nobody can tell at this stage what impact the problems in the Middle East will have on business confidence.

However, if the IMF calculations turn out to be valid, they could mean growth in the OECD slowing to around 3¼ per cent this year and next and inflation rising to around 5 per cent.

The outlook for the developing world is less favourable. Although as a group, devel-

oping nations are net oil exporters, they now account for 28 per cent of total world oil consumption: up from 18 per cent in 1973.

Only 11 developing nations - countries such as Mexico, Venezuela and Nigeria - will gain from substantially higher prices. Many oil importing countries in Africa, the Caribbean and central America will lose directly.

As the refugee camps near Jordan's border with Iraq bear witness, other countries such as Egypt, India, Jordan, Pakistan and South Korea will suffer indirectly through the loss of expatriate workers' remittances from the Middle East.

The newly democratised nations of eastern Europe will be especially hard hit.

They depend almost entirely on imported oil for their needs,

use more energy per unit of output than the advanced industrial nations and from next year will have to use scarce hard currency to pay for their imports from the Soviet Union after the present system of barter and subsidy ends.

It is therefore clear that some nations will cope better than others and that the problems facing policy makers will grow.

Among the big industrial powers, Japan and Germany have the advantage of strong growth, which in Germany's case is helping to offset some of the unexpectedly heavy financial and social burdens of economic union with east Germany.

The Gulf crisis has caught the US, in particular, in an economically enfeebled state. Growth in the second quarter

was down to an anemic 1.2 per cent annual rate, yet underlying inflation continues to cause concern.

The military build-up in the Middle East will add to the nation's budgetary problems while the crisis in the savings and loans sector is a running sore for both the public and financial sectors of the economy.

Common sense suggests that it is better for the world economy to face a jolt such as the present Gulf crisis in a unsynchronised state.

Economic slowdowns such as those being experienced by the US, Britain or Canada are more manageable if other regions such as continental Europe and Japan are growing strongly and providing strong demand for the laggards' imported goods.

But a big question facing policy makers is whether the financial markets will accept the implications of economic divergence calmly.

Lower interest rates are part of the US Administration's economic agenda.

Most other large nations want to keep monetary policy tight, with Japan and Germany thought more likely to raise interest rates than lower them in the wake of higher oil prices.

The world's currency markets have been relatively calm in recent months. They have appeared to accept that the big industrial nations have made it their priority to limit inflation.

If this perception is eroded - particularly in the case of the US - the way could be open to renewed international financial turbulence.

The FT's last three annual surveys of the World Economy painted an increasingly upbeat assessments of economic trends, and yet each was followed by serious dislocations in financial markets. This survey has been written against a chequered international background in which sombre hues predominate.

Over the past decade, the G7 and institutions such as the IMF and World Bank have greatly increased their ability to manage economic crises. These skills could prove necessary in the months and years ahead.

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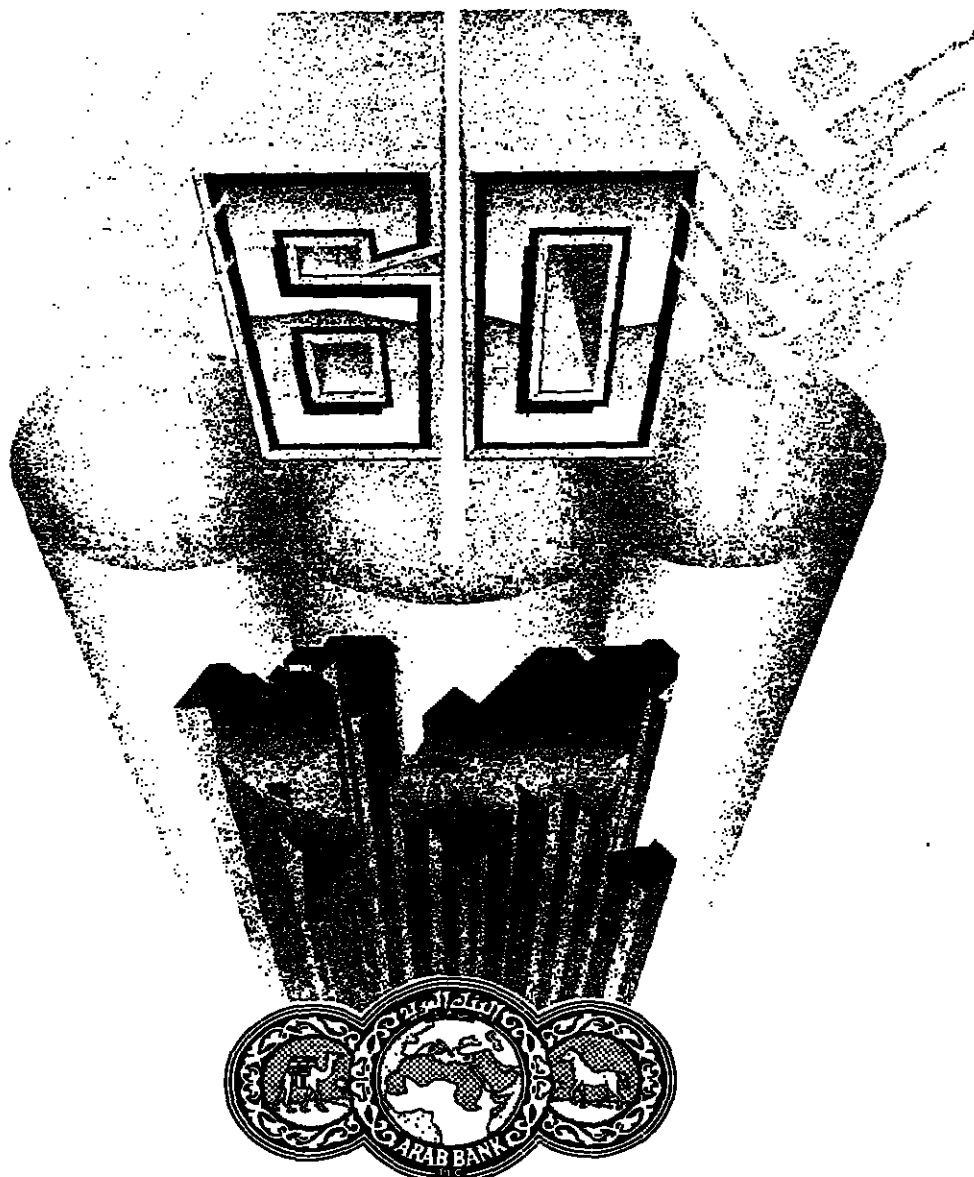
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Editorial Production: Andrew Slade

## ARAB BANK



60 Years of Banking Experience

### ARAB BANK GROUP BALANCE SHEET

CAPITAL & RESERVES	U.S. \$ 792	MILLION
DEPOSITS	U.S. \$ 12	BILLION
TOTAL ASSETS	U.S. \$ 15	BILLION

ARAB BANK, GENERAL MANAGEMENT, SHMEISANI, AMMAN

P. O. BOX: 950544-5, TELEPHONE: 660115, 660131 TELEX: 23091 ARABNK JO FAX: (962) (6) 606793

BRANCHES: BAHRAIN, CHINA, CYPRUS, EGYPT, FRANCE, GREECE, ITALY, JAPAN, JORDAN, KOREA, LEBANON, QATAR, SINGAPORE, UNITED ARAB EMIRATES, UNITED KINGDOM, U.S.A., YEMEN REPUBLIC



## WORLD ECONOMY 2

Peter Norman assesses the economic impact of the Gulf crisis

## An upset, but not a shock

IF NOTHING else, Iraq's invasion of Kuwait has provided full employment for the economics profession.

Computer models have been working overtime to assess the extent of the dislocation engendered by President Saddam Hussein's actions. The conclusions have been of some comfort to the industrialised world, but less so elsewhere.

For the 34 industrialised nations of the Organisation for Economic Co-operation and Development (OECD), the foreseeable economic repercussions of the crisis and the loss through embargo of Iraqi and Kuwaiti oil exports constitute an upset rather than a shock.

In non-oil producing developing nations, some of the rapidly growing, newly industrialising countries of south-east Asia and the nascent democracies of eastern Europe, the strains will be more severe.

Less quantifiably, the levy imposed through increased oil prices on the world's consumers could exacerbate a growing shortage of world savings. The impact on business confidence of the subsequent fall in share and bond prices remains uncertain. There are also fears of protectionism, particularly if the crisis leads to job losses in the industrial countries.

At a local level, the Iraqi invasion of Kuwait has dealt a severe blow to the hopes of other Gulf states to attract inward investment or develop their financial centres.

Iraq and Kuwait produced around 4.6m barrels per day of oil last year, or 7.3 per cent of global production. Matters obviously would be grimmer if war in the Gulf caused the disruption or destruction of Saudi Arabia's 5.5m b/d oil output.

THE OIL MARKET (1989)					
Production	million bpd	% share	Consumption	million bpd	% share
<b>OPEC</b>	23.2	36.5	<b>North America</b>	18.2	28.1
Saudi Arabia*	5.5	8.8	US	16.6	25.6
Iran	2.9	4.6	Canada	1.7	2.5
Iraq	2.8	4.5	<b>West Europe</b>	12.5	19.3
United Arab Emirates	2.1	3.3	W Germany	2.3	3.5
Venezuela	2.0	3.2	Italy	1.9	3.0
Kuwait	1.8	2.8	France	1.9	2.9
Nigeria	1.6	2.6	UK	1.7	2.6
Indonesia	1.4	2.2	Spain	1.0	1.5
Algeria	1.2	1.8	Netherlands	0.7	1.1
Libya	1.1	1.8	<b>Belgium &amp; Luxembourg</b>	0.5	0.8
<b>Non-OPEC</b>	40.4	63.5	<b>Asia</b>	12.2	18.9
USSR	12.5	19.7	Japan	5.0	7.5
US	9.2	14.0	China	2.4	3.6
Mexico	2.8	4.5	<b>South Korea</b>	0.8	1.3
China	2.6	4.0	Taiwan	0.5	0.8
UK	1.9	3.0	<b>USSR &amp; Eastern Europe</b>	11.0	17.0
Canada	1.7	2.6	USSR	8.8	14.0
Norway	1.5	2.4	<b>Latin America</b>	5.3	8.2
Egypt	0.9	1.4	Middle East	2.9	4.5
India	0.7	1.1	Africa	1.8	2.8
Brazil	0.6	1.0	Australasia	0.8	1.2
<b>Total</b>	<b>63.6</b>	<b>100.0</b>	<b>Total</b>	<b>64.7</b>	<b>100.0</b>

\*Includes Neutral Zone. Note: Differences between world production and consumption are accounted for by stock changes and statistical differences. Source: BP Statistical Review of World Energy

But projections of "worst case scenarios" suggest that the world would not suffer as greatly as in the two previous oil crises.

One recent study by British economist Mr Douglas McWilliams and the Petroleum Economist magazine concludes that neither a major military conflict over Kuwait nor the west backing down and allowing Iraq to dominate the Gulf region would cost the world as dear as the oil crisis of the mid-1970s, when the cumulative loss of growth was 7 per cent, or that of 1973-82, when the growth loss was 5 per cent.

Another analysis from the Economist Intelligence Unit suggests that conflict in the Gulf would produce a short, sharp oil supply shock with higher inflation, especially if Saudi, Iraqi and Kuwaiti oil installations were damaged. But the EIU concludes that the world would be spared recession and, providing the crisis were over in six months, could look forward to a strong recovery from 1992.

The key to both of these relatively sanguine projections is the sharp fall in world dependence on imported oil from the Organisation of Petroleum Exporting Countries (OPEC).

Oil consumption in OECD member states has fallen relative to economic activity by

almost 30 per cent since 1980. The sharp oil price increase during the second oil crisis gave renewed impetus to conservation efforts and the growth of other forms of energy output.

Cheaper oil after 1986 and renewed world economic growth reversed some of these trends, notably in the US. But the world, and particularly Japan, has learned that it need not be as dependent on oil as in the past. Although Japan has practically no indigenous oil supplies, it imports less energy as a percentage of gross national product than the US.

These efforts, together with a major build-up of oil stocks

in consuming countries, the absence of super power tension over the Gulf crisis and the decision of Saudi Arabia and other OPEC nations to pump more oil, have so far helped limit the impact of the crisis on the oil price.

Since the invasion of Kuwait, the oil price has fluctuated between \$25-\$30 per barrel against \$16 in July. The oil price chosen by most economists when guessing the likely impact of a marked worsening of the crisis has been \$30 a barrel, against a peak of \$33 at 1980 prices during the second oil crisis of 1979-82.

On the assumption that governments do not cut public

spending in real terms to offset the increased inflationary impact of the oil price rise, OECD calculations suggest a rise in the oil price to \$25 a barrel could knock perhaps one percentage point off US growth over two years, 1.2 points off European growth and 1.5 points off Japanese growth in the period.

The effect on inflation would show up sooner. According to OECD models, a \$9 a barrel increase in the average international oil price adds about 1.5 percentage points to the domestic demand deflator of its 24 member nations over a 12 month period. Inflation, on this measure, would be boosted by

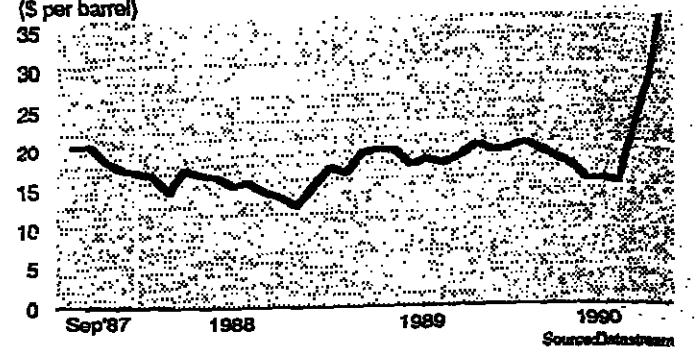
0.9 points in the US, 1.5 points in Japan and 2.1 points in Europe.

These developments would amount to an upset rather than a disaster for most industrial economies. Japan and continental Europe entered the crisis with growth strong. The major English speaking economies - the US, Britain and Canada - look more vulnerable because their economies have already been slowed by tough counter-inflationary monetary policies.

But the US, which is shouldering the main military burden in the Gulf, still recorded year on year growth of 1.2 per cent in the second quarter. It has other problems in the shape of a fragile financial sector and a huge and growing budget deficit. If it enters recession, higher oil prices will be only one of many factors behind the move.

## Real oil price

Brent crude price deflated by Industrialised Countries Export Price Index (\$ per barrel)



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Outside the main industrialised countries, there would be some winners from the oil price rise. It could prove a boon for Soviet economy, providing the USSR has the organisational capacity to exploit the windfall. Mexico, Venezuela, Indonesia and Nigeria should also benefit.

Elsewhere, however, higher oil prices would hit the non-oil developing world, the newly industrialising countries and eastern Europe.

Demand for oil in the developing nations increased by 18 per cent between 1986-88, twice the 9 per cent growth of the industrial world.

Eastern Europe is almost totally dependent on oil imports and will soon have to start paying market prices for Soviet oil following the breakdown of barter arrangements of Comecon. Moreover, eastern Europe is a wasteful energy user, with energy use per unit of output ranging from 1.5 times average OECD levels in Hungary to 2.7 times in Romania.

With the oil crisis of the 1970s, weaker economies stand to suffer most from developments in the Gulf. They face additional problems because of the world savings shortage.

Japan, West Germany and, to a lesser extent, the US have been important exporters of investment capital and will be losers from the oil price rise. The oil exporting countries for their part will need their increased oil revenues for defence and development.

There is bad news in a world where strong investment in the industrial countries, reconstruction in eastern Europe and continuing development in the rest of the world have increased the calls on global savings. The upshot could be higher real interest rates for some time to come.

POVERTY, it is said, has been always with us. It is just possible, however, that in the 1990s the 'haves' will consider the plight of the 'have-nots' with something more than humanitarian concern.

Self-interest is a more powerful sentiment than charity; and the governments and electorates of industrialised countries are discovering that Third World poverty can have an adverse bearing on First World living standards.

Whether this growing awareness will help persuade policy makers to make greater efforts to tackle the plight of the world's poor during this decade remains to be seen.

The scale of the problem to be addressed is enormous. More than one billion people - one in five of the world's population - live in absolute poverty, which by World Bank definition means trying to exist on a \$1 or less a day.

The most vulnerable are the young and the elderly. Some 150m children - one third are malnourished. Some 1m children a year die before their fifth birthday. Mortality among children under five in sub-Saharan Africa exceeds 180 deaths per 1,000; in Sweden it is fewer than 10.

If you live in Switzerland, your life expectancy is nearly 80; in Sierra Leone, you can anticipate half that span.

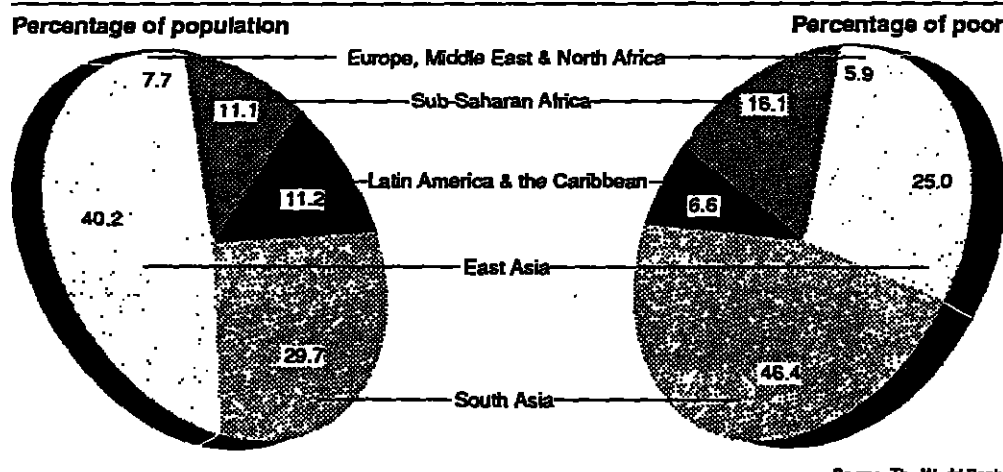
Nearly half of the world's poor live in South Asia, and a further 25 per cent are found in East Asia. But in both these regions, real per capita incomes have grown in the 1990s. It is sub-Saharan Africa, home to 500m people, that presents the bleakest picture, and poses the toughest challenge, to policy makers.

The 1990s saw a sharp erosion of post-independence achievements. Average per capita income fell by a quarter during the decade. Life expectancy is the lowest of all the developing regions, and mortality rates are the highest in the world. Literacy rates the lowest - despite unprecedented development effort during the period led by the World Bank, UN agencies and bilateral donors.

Prospects for Africa - which accounts for two-thirds of the world's least developed countries (LDC) - remain bleak.

The continent enters the 1990s increasingly marginalised in terms of world trade and foreign investment, already feeling the effect of the Gulf crisis on oil prices and with aid experts debating about appropriate recovery programmes.

## Population and poverty in the developing world, 1985



Source: The World Bank

## Michael Holman on the world's poor

## More effort needed to tackle poverty



Ethiopian famine victims: Africa's infant mortality rates are the world's highest

The current strategy for the reduction of poverty in Africa and elsewhere was set out last July in the World Bank's World Development Report 1990, from which the above statistics are taken.

It proposed a two-pronged approach: policies in the developing world should foster labour-intensive growth based on market incentives and better management, while ensuring widespread provision primary education, basic health services, and family planning.

At the same time, says the Bank, more assistance from outside is needed.

In 1981 there was a positive flow of \$42.6bn of resources to developing countries.

By 1988 it was a negative flow of \$32.5bn, while the foreign debts of developing countries, more than \$1,500 billion, required nearly \$200bn a year in debt servicing alone.

"In the 1990s," argues the Bank, "the rich nations must start transferring resources to the poor nations once again."

The Bank acknowledges that for this to happen, there must be a "satisfactory solution to the lingering debt crisis."

Yet in the view of most economists and African govern-

ments themselves, the debt burden remains a major obstacle to development.

The efforts of recent years - including the Toronto agreement in 1986 which gave the Paris Club Governments a "menu" of options for softer rescheduling terms, special facilities offered by the International Monetary Fund and the World Bank, and debt cancellation - have been welcomed.

But the initiatives "fall far short of providing support adequate to restore sustained economic growth in indebted countries," concludes a paper

on developing country debt, published last April by the Overseas Development Institute, the London-based research body.

Moreover, says the Institute, implementation of some of the initiatives has been delayed; they do not necessarily provide adequate funding; they are often too short-term; and they are dependent on controversial adjustment programmes.

"Furthermore," it continues, "the 2.3 per cent rise in world interest rates during 1988-89 has cancelled out much of the relief the initiatives were intended to provide."

There is a second critical factor which will help determine the rate at which economic recovery in Africa takes place and poverty is alleviated: the level of foreign investment, along with managerial skills and technological advances.

The continent's returns on investment have become increasingly uncompetitive. Hence the fall in British industrial investment, for example, from 4.5 per cent of net investment abroad to 0.5 per cent.

The reasons are not hard to find. From being one-third higher than the level achieved by foreign investors in South Asia in the 1960s, returns fell to about one-tenth in the 1980s. Meanwhile investment costs are usually more than 50 per cent higher in Africa than in South Asia.

Although many countries in sub-Saharan Africa have embarked on structural adjustment programmes, while at the same time rewriting or revising their foreign investment codes, foreign business remains reluctant to return.

"For many British transnational corporations in Africa, structural adjustment has come too late," writes Mr Paul Bennel, an economics lecturer at the University of Zimbabwe.

"Some are so Africa weary that they want to disengage completely."

The third factor critical to Africa's recovery will be the performance of its commodity sector, which in the past has been hit as much by domestic mismanagement as by weak international prices. By 1988 Africa's market shares for cocoa, cotton, coffee and copper had fallen by between 30 and 40 per cent of the 1970 market share.

If concern about the impoverishment of Africa were accompanied by further and substantial debt relief, new foreign investment accompanied by the management skills Africa so badly needs; and a recovery in commodity production were not set back by further falls in world prices, living standards will improve.

This is an unlikely scenario. Most observers believe that the economic decline of sub-Saharan Africa will continue this decade. As Mr Robert McNamara, the former World Bank president, warned last June, the "nightmare" feared by the Economic Commission for Africa (the UN organisation based in Addis Ababa) is coming closer.

"Africa is a continent in crisis and there is little reason to believe that current development programmes will reverse the adverse trends," he told a meeting of the Africa Leadership Forum.

The situation five years from now is likely to be worse, not better."

## Stephen Fidler on international debt

## Progress threatened

THE RISE in oil prices brought about by the Iraqi invasion of Kuwait threatens to blow off course the strategy for dealing with the international debt problem.

"If you'd asked me a few weeks ago about the debt issue, I would have said that progress, although slow, was being made. Now, this is far from clear," says Mr Moeen Qureshi, Senior Vice President for Operations at the World Bank. The question of whether higher oil prices demand extra efforts from the international institutions will be widely discussed at this month's annual meetings of the International Monetary Fund and World Bank in Washington. The problem in analysing the effect of higher oil prices depends on how high prices go and how long they will stay there.

However, there are only a minority of beneficiaries. Among the main highly-indebted countries, the World Bank has identified only Venezuela, Mexico, Ecuador, Algeria and Nigeria as beneficiaries. For some such as Mexico, the results are equivocal: recession in the US - its main export market - would hurt the economy.

The initial reaction in most industrial countries suggests that because the impact of the oil price rise is likely to be significantly less than that of the two shocks of the 1970s, new initiatives - for example, a special oil facility from the IMF - do not appear warranted.

Many believe it is possible to handle the extra demands for official finance through the established channels, for example the IMF Contingency and Compensatory Financing Facility (CCFF) and the rules which allow for an expansion of access to IMF resources in special circumstances.

Many of those countries with special problems arising from the crisis will also be helped, if envisaged, through the US proposals which call for international support both for its military effort and for affected economies.

"One thing is sure," said one monetary official last month. "We won't be calling on the commercial banks to recycle the OPEC surpluses." It was the 1970s recycles of the OPEC surpluses which left the commercial banks with the problem loans in the third world.

The ability of US banks, in particular, to withstand the impact of bad Latin American loans has, in the view of many, guided the pace of the international debt strategy. By now, with one or two exceptions, if they had not compounded their balance sheet problems by making subsequent unwise loans at home, banks would have put the debt issue squarely behind them.

It was against this background that the Brady initiative - named after the US Treasury Secretary, Mr Nicholas Brady - was launched in March last year. The initiative envisaged for the first time official funding from the IMF and World Bank and from



US Treasury Secretary Nicholas Brady

bilateral donors such as Japan, to finance the reduction of a country's debt. It ended the focus on new lending by banks, although new bank loans were deemed still to be necessary, and paved the way, in effect, for a debtor country to default on its commercial bank obligations without bringing confrontation with creditors.

The balance sheet on the initiative shows it to have been a mixed success. The official sanction for debt relief has triggered a number of innovative approaches to bringing down many countries' debt burdens. It can be argued that in some countries, particularly Mexico, it provided an important psychological boost to

efforts at economic reform. Indeed, some would argue that it has helped increase the commitment of some governments to economic reform, and it is only with this economic reform that the debt issue can be resolved. "Debt reduction and strong economic reform programmes can be a very powerful combination," argues Mr David Mulford, Undersecretary for International Affairs at the US Treasury.

However, the progress has been slower than many hoped. There have been a handful of beneficiaries: Mexico, the Philippines and Costa Rica, soon to be joined by Venezuela - and the financial benefits have fallen short of expectations.

The initiative was accompanied by a change in policy which allowed the IMF and World Bank to lend to countries even while they were in arrears to commercial bank creditors. This change has brought much criticism from international bankers, who blame it in part for the sharp rise in arrears to banks - to around \$20bn - that has taken place over the last two years.

This question of financial discipline worries commercial bankers, but also concerns a broader constituency in central banks and elsewhere. This is one concern too over the moves now gathering pace

towards extending debt relief to countries with a high debt burden to foreign governments rather than commercial banks.

However, having conceded that debt relief is necessary for countries with large debt burdens to commercial banks, it became increasingly untenable to hold that debt relief was not similarly desirable for countries with a large debt burden to foreign governments. So far, few are arguing that the IMF and other multilateral institutions should also be in the business of forgiving debt.

The way towards official debt forgiveness was paved at the Toronto economic summit in 1988. The so-called Toronto terms, initially applying only to the poorest countries, have been widened to include other countries. It is likely to be further revised, because the benefits are so small - the interest savings to the 16 countries benefiting from the Toronto terms amount to a total \$45m annually, the IMF estimates.

The focus is also on the so-called lower middle-income debtors, a group including countries as diverse as Jamaica and Poland. Less than one-quarter of Poland's foreign debt of \$40bn is owed to banks, and it is expected to require some kind of official debt forgiveness by the end of March where its current moratorium agreed with the Paris Club of creditor governments ends.

Official debt relief is also an important part of President Bush's Enterprise for the Americas initiative. This calls for a reduction of as much as 50 per cent in up to \$7bn of US aid loans to Latin America.

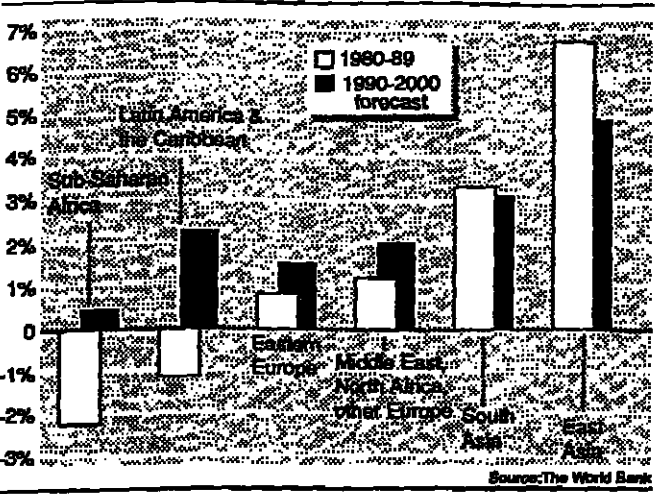
The US will treat part of the interest on these loans as a grant, meeting certain economic conditions as principal repayments, and allow concessions on interest so that some can be paid in local currency - into a trust fund to use, for example, in local environmental projects.

Up to \$5bn of commercially-priced trade debt will also be eligible for debt relief, though more modest: 10-15 per cent may be sold for projects such as debt-for-nature swaps. From the US point of view, this has the advantage of being revenue neutral.

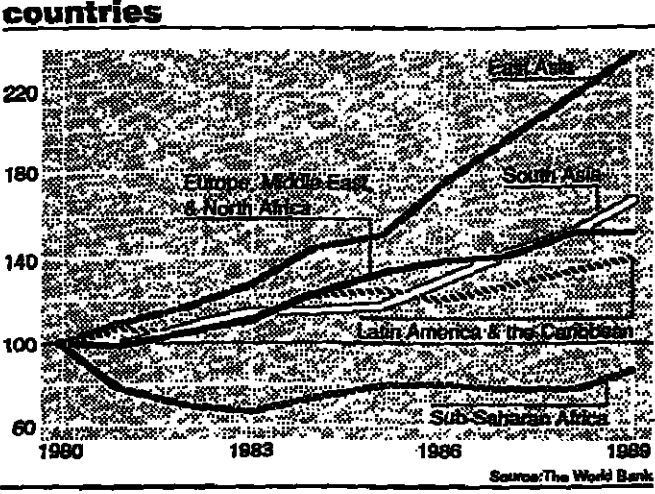
Since every country accounts for its official debt differently, the US idea cannot be made generally applicable. Neither would forgiveness on this scale make much difference for countries such as Poland. Indeed, the potential impact of official debt forgiveness on the budgets of the industrialised countries will clearly act as a continuing constraint to furthering such initiatives.

Moreover, further official debt forgiveness is likely to call into question the value of export credits as a means of transferring resources to the developing world. If this lowers the flows of funds, it may be a worrying development for the third world which, because of the retreat by commercial banks from lending, has become increasingly dependent on official sources of finance.

## Real per capita growth in developing countries



## Real export performance of developing countries



Handwritten text: "The situation five years from now is likely to be worse, not better."



## WORLD ECONOMY 3

William Dullforce on world trade

## Gatt delegates in race to beat December deadline

THE RULES that will govern world trade in the 1990s, and possibly into the 21st century, will be decided in the next 10 weeks.

Time is running out for the Uruguay Round, the biggest-ever global trade negotiation launched four years ago by more than 100 Governments. The aim is to roll back protectionism and re-establish universal free trade as the guiding principle of the multilateral trading system.

The outcome remains uncertain. Since July, Governments have been parroted the declaration by the leaders of the seven big industrial nations at their summit in Houston that the success of the Round "has the highest priority on the international economic agenda".

Yet in the negotiating arena at the General Agreement on Tariffs and Trade (GATT) in Geneva, delegates are only too aware of the differences that remain to be resolved in such crucial areas as agriculture,

services, textiles and intellectual property rights. Talks on tighter rules for GATT that would trim the claws of protectionist governments hang in the balance.

There is no guarantee that negotiators will be able to assemble a coherent package of results from the 15 separate

## The Uruguay Round aims to re-establish free trade

subjects under discussion by the first week in December, when trade ministers are due to meet in Brussels to complete the Round.

Already, multinational companies have started to assess the effect on their operations of a division of the world into regional trading blocs.

Some American corporations regard such a scenario as

entirely plausible. They suspect, despite denials from, among others, Mr Frans Andriessen, the European Community's external affairs commissioner, that the EC's will to conclude a multilateral trade deal has been dulled.

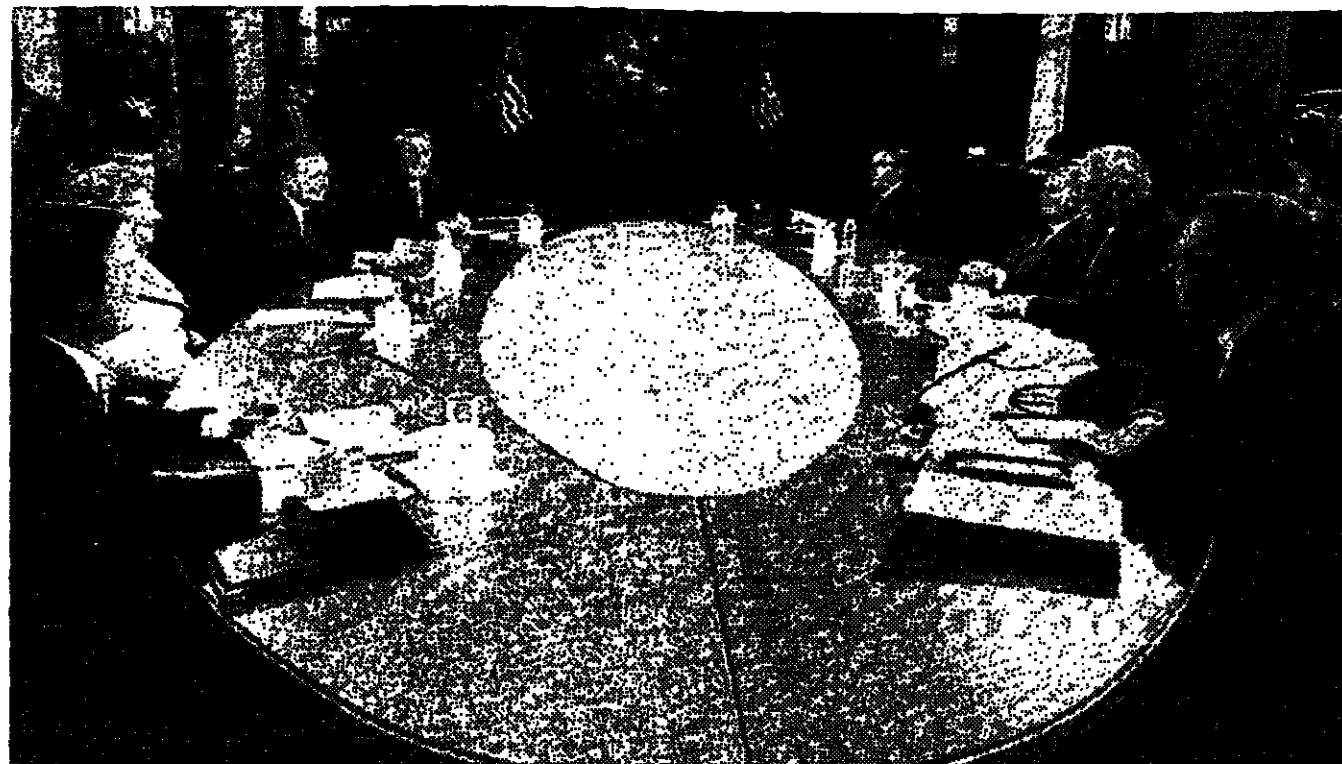
They point to the Community's preoccupations with its relations with eastern Europe; the establishment of its own single market by 1993; talks with the six countries of the European Free Trade Association on the creation of a "European Economic Space"; and the intractability of adjusting the EC Common Agricultural Policy to demands for liberalisation of world farm trade.

President George Bush's offer in June to negotiate a free trade partnership with the whole of Latin America (the US already has a similar agreement with Canada) increased fears that the world would split into closed, competing trade blocs if the Uruguay Round failed to deliver a new global trade order.

Such a result would deepen the plight of struggling Third World countries, especially in Africa. Even more dynamic developing countries in Asia, whose growth has hinged on trade under the existing GATT system, worry about being left out. Mr Lee Kuan Yew, Singapore's Prime Minister, has voiced fears that the Asians would be "quarantined" into a Japanese yen bloc and excluded from European and American markets.

Mr Neal Blewett, Australia's trade negotiations minister, worried that the Gulf crisis could distract attention from the Uruguay Round, warned last month that failure would provoke rampant protectionism and commercial wars.

However, talk of trade armageddon is premature. If statements of intent are taken at face value and the political will persists in Washington and Brussels, trade ministers can still inject growth impulses into the world economy in December by enlarging and



At July's summit meeting in Houston, Texas, G7 leaders declared that the Uruguay Round had "the highest priority"

confirming an open trading system.

Recognising that the Round was running far behind schedule, the major trading nations agreed at the end of July on an accelerated and strict working programme. By October 1, countries have to table full details of their current agricultural subsidies. From October 8, senior trade officials from capitals must be in Geneva with full powers to negotiate and conclude agreements. October 15 is the deadline for governments to submit offers to cut farm supports and to open general access to their markets through tariff reductions and the removal or easing of non-tariff barriers to trade.

A breakthrough on agriculture remains the key to success. The US Administration and the Governments of the 14 farm exporting nations in the Cairns Group have emphasised that a substantial reduction in trade-distorting farm assistance is a *sine qua non* for a new international trade order. Earlier this year the OECD put the potential dividend from liberalisation of farm trade at more than \$200bn a year in savings to taxpayers and consumers.

Present agricultural systems are so entrenched and the issue so politically sensitive

that the potential dividend is not a realistic target for the 1990s. But the OECD estimate illustrates the growth-stimulating release of resources - in farm-exporting developing countries as well as the industrialised world - that could follow a substantial, if partial, cut in farm subsidies.

The principal obstacle to an agriculture agreement has been the EC's reluctance to

areas had become mired down in July.

The Round also aims at a fundamental overhaul of the GATT system. For a provisional arrangement cobbled together in 1948, GATT has served the world economy remarkably well through its most-favoured-nation principle, under which any trade advantage granted to one country must be unconditionally accorded to all other

imported goods allegedly being sold at prices lower than those charged on domestic markets.

Moreover, GATT has suffered from an aberration over trade in textiles and clothing, which has been governed, in contradiction of GATT's basic principles, by a Multi-Fibre Arrangement based on import quotas. Removal of this anomaly is a central objective for developing countries.

Several sets of negotiations in the Round, some close to agreement, aim to "deblock" the GATT system, strengthening its ability to settle trade disputes and enhancing its authority.

Final success depends, first, on settling the agricultural issue and, second, on negotiators being able to achieve a series of trade-offs among the complexity of varying interests.

The EC, for example, is making the opening of its textiles market conditional on tighter rules against circumvention of anti-dumping duties, which are strongly opposed by Japan, Hong Kong, Singapore and South Korea.

Tough political decisions will be needed over the next 10 weeks to bring a coherent result from this tangled situation. The prize is a growth-stimulating opening up of the global trading system.

## There is no guarantee that negotiators will be able to assemble a coherent package of results from the 15 separate subjects under discussion

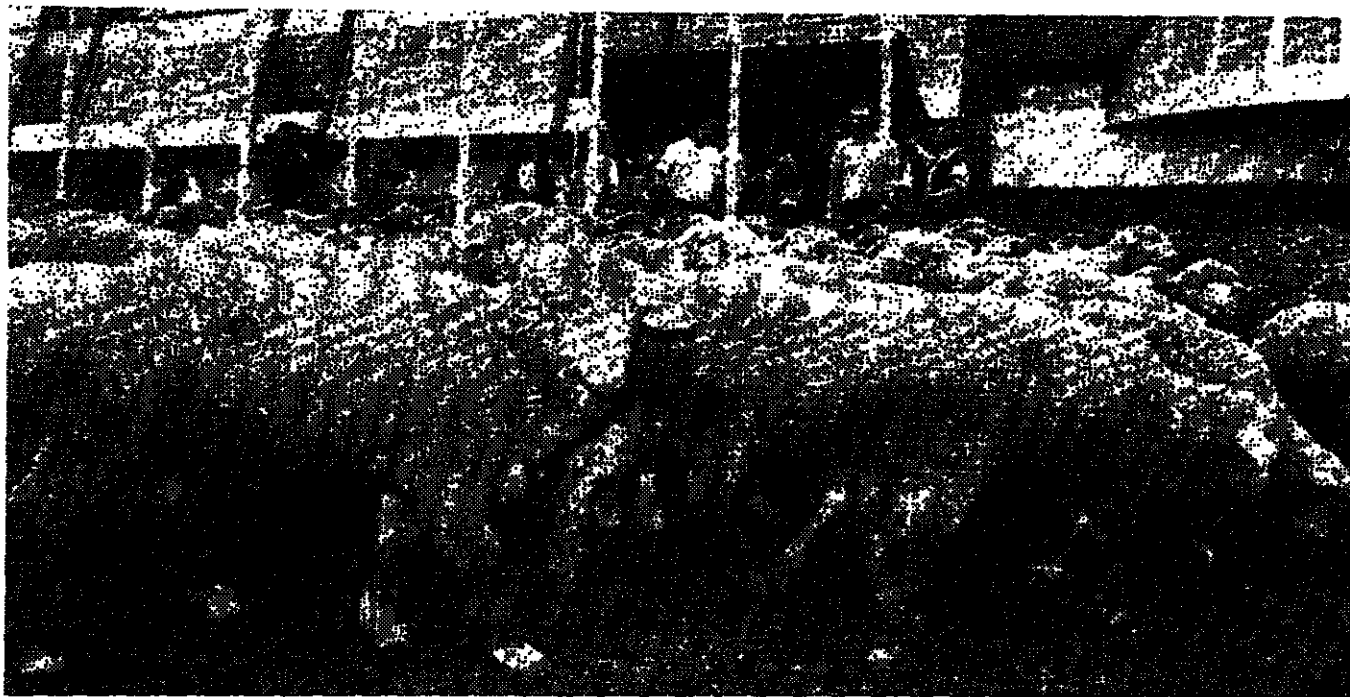
adjust its Common Agricultural Policy in any fundamental way. In July, the Community undertook to negotiate seriously progressive, substantial reductions in support.

Putting farm trade under GATT free trade rules is, however, only one of several major objectives for this most ambitious of GATT rounds. Others are the liberalisation of the \$600bn per year trade in services and a global harmonisation of intellectual property rights which could stimulate trade in high technology products such as pharmaceuticals and electronics. Talks in both

GATT members.

Trade consistently grew faster than world output in the 1980s and 1989, providing an important stimulus to growth. From the 1970s, however, GATT's influence lagged and its limits were exposed.

Governments, under domestic pressures, circumvented GATT principles by concluding bilateral voluntary export restraint agreements in cars, steel products and electronics consumer goods, and by subsidising their own producers. More recently, in the 1980s, there has been a surge in anti-dumping actions against



Agriculture remains a key issue: French farmers protest against East German imports in front of the European Parliament

EC members differ over EMU timetable, writes David Buchan

## New uncertainties slow Europe's progress to union

THE MOMENTUM over the past year towards economic and monetary union (EMU) in Europe seems to have been checked.

All EC states, except Britain, still favour the ultimate goal of sharing a single currency run by a federal central banking system. Formal treaty negotiations on creating EMU will start in December. But new uncertainties about higher oil prices and German unification, and old arguments for economic convergence and resource transfers to accompany or precede monetary union, are combining to make several of Britain's EC partners cautious about the pace at which they precede to EMU.

The picture has been further muddled by UK Chancellor Mr John Major's plan to promote a "hard" version of the European Currency Unit (Ecu) which could evolve, by popular acclaim and market demand rather than by formal treaty, into Europe's common currency. The Major plan has no outright supporters, but some other Governments find aspects of it intriguing enough to incorporate into their own plans. In particular, Mr Carlos Solchaga, the Spanish Finance Minister, has seized upon the "hard Ecu" scheme to make it the centrepiece of a late and long transition period, with EMU proper beginning in the next century.

The Delors plan (after Mr Jacques Delors, President of European Commission) for a three-stage move to EMU remains the main blueprint on the drawing board, but the



Above: Bundesbank President Karl-Otto Pöhl and, right, President of the European Commission Jacques Delors

a second phase, in which an embryo of the eventual European System of Central Banks (ESCB) would be set up to assume responsibility from national central banks (which would only become legally subordinate to the "Eurofed" in the final Stage 3).

France, Italy, Belgium, the European Commission itself, and to a lesser extent Denmark, Luxembourg and Ireland, form the "full steam ahead" camp. They believe that closer monetary co-operation, even union, can precede full economic convergence between the EC states.

They do not dismiss the need for all members of a monetary union to get their inflation rates and public deficits down. But they argue that a monetary straitjacket can provide the right discipline to achieve such economic convergence. In support, they cite the superior performance of the nine EC states whose currencies are in the EMS' exchange rate mechanism over the three - Britain, Portugal and Greece - that are still outside it.

These last three countries form the core of the "go-slow" group. The Portuguese and Greeks are genuinely worried about how they might survive economically in monetary union, though they do not, or dare not, object to it as the



eventual goal. Therefore they want no timetable set to EMU. Spain, with its bigger and more buoyant economy, is happier with EMU, but on a delayed timetable.

All three southern states want EMU to be accompanied by more money from richer EC members. Mr Delors, however, is firmly against this. Anything smacking of compensation would imply that EMU is inherently bad for certain EC economies. The richer countries (including Britain) would almost certainly refuse to add to EC structural economic aid funds. Under a 1988 agreement, these are already set to double to Ecu 14bn per year by 1993. Total EC aid, including agricultural support, now accounts for, respectively, 5.1, 5.9 and 2.3 per cent of the GNP's of Greece,

Ireland and Portugal.

In unholy tactical alliance with the southern states is the British Government. It does not share with them, or any of its 11 EC partners, the final goal of a single currency; even if it did, it would not support their desire for a greater shift in EC resources from rich to poor.

The Germans and the Dutch are the "perfectionists", in the sense that they would like to see the Delors report followed to the letter. This report was produced last year by a committee largely composed of central bank governors, chaired by the Mr Delors but with Mr Karl Otto Pöhl, the Bundesbank president, the dominant influence.

Two key themes of the report, from which Mr Delors has since sought to disassociate himself and the Commission, are the stress that it lays on the need for economic policies and performance to converge in parallel with steps to EMU, and for binding rules on states' budget deficits.

At the September meeting in Rome, Mr Theo Waigel, the German Finance Minister, and Mr Pöhl warned that any attempt to construct monetary union without prior convergence between EC economies would be a house built on sand. The risk of letting the Community's monetary ambitions run ahead of economic convergence had already been highlighted in the 1970s with the sorry history of the "snake". Mr Pöhl and Mr Waigel also made clear that, in a monetary union they want Governments to be subjected to more than mere words from their EC partners if they run excessive deficits.

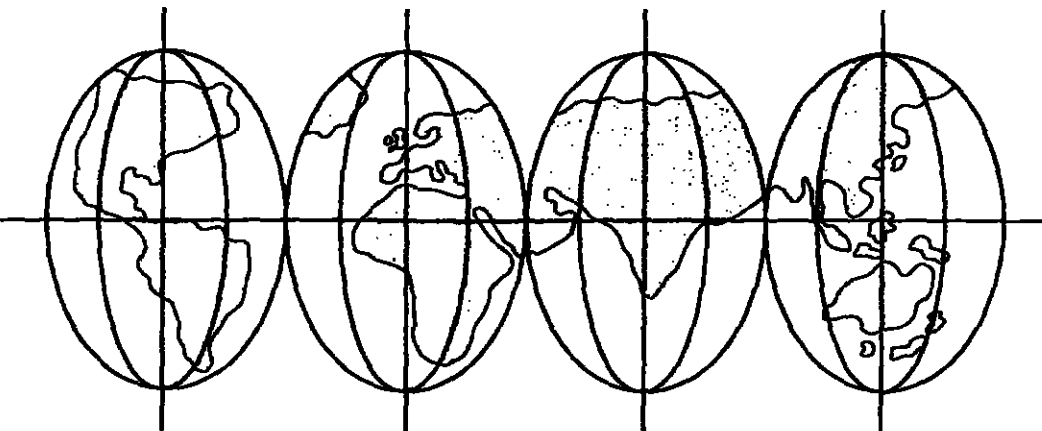
These are, of course, the men who must deal with the economic consequences of German monetary union, and they know that accusations that they are sacrificing the D-Mark on the altar of European unity will be thrown at the Bonn Government in the coming German election campaign.

On the face of it, the "go-slow" and "perfectionist" camps might seem to be on the same side. Britain and Germany are at one in stressing the need for economic convergence. But, ironically, no country is less interested in half-way moves to EMU, such as development of the hard Ecu, than Germany.



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## WORLD ECONOMY 4

The vast bills run up in the Reagan era have fallen due, writes Anthony Harris in Washington

# The US: whatever happened to the long expansion?

IN THE first days of July an alarming purported leak from the White House began to circulate among economists.

An industrial delegation, it was said, had met something like despair at the state of the economy. The property market downturn, the growing recession in the populous north-eastern quarter of the country, reports of growing strain on the banks and the slow fall in real consumer spending were just becoming evident. What had happened to the long expansion?

The rumours were discounted at the time; the consensus view was still quite cheerful, as were the public statements of Administration officials.

It was not long, though, before President George Bush sounded and divided his own party by announcing that he would eat his best known

which the banks were applying. The markets responded by selling bonds, so that long term rates, which determine the debt service burden on the federal budget, rose to 9 per cent. Equity markets suffered a slow-motion crash.

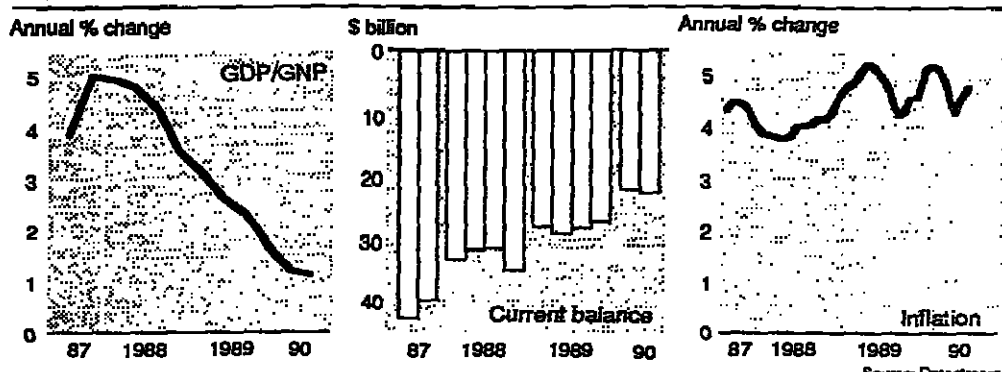
Then, as the Fed seemed ready to risk another modest easing, the Gulf crisis erupted, and both policy and the markets have been in near-paralysis.

The reported White House alarm about the economy have become generally shared. This is only partly due to the Gulf. After an initial shock, and an episode of oil-company bashing, most economists share the view robustly stated on September 6 by Mr Jerry Lashinski, President of the National Association of Manufacturers (NAM). "While it's a crisis in a political and human sense, I think it is an overstatement to call it a crisis in an economic sense," he said.

Mr Lashinski argued that the price impact would be quickly absorbed and US competitiveness might actually be improved, since the impact on trading partners would be greater than on an economy which is about 50 per cent self-sufficient in oil. The NAM forecast a short, shallow recession: "extremely mild, the mildest since the 1960s" - followed by a rebound in 1991. Non-oil imports would fall during the recession, and a further decline in the dollar was likely. "We still get an improvement in the trade balance," he said.

It is no accident that this cheerful view comes from the manufacturing sector. Manufacturing has most to gain from export growth, from a weak dollar, and indeed from

## US



military spending in the Gulf. Inventories are under control, labour costs subdued, energy efficiency high, and order books close to an all-time peak. Above all, it is least embroiled in the crisis of debt and asset values which has devastated the real estate market, the banks and brokerage houses, and exposed over-leveraged companies of every kind.

In all these respects, any recovery in 1991 will be the reverse of the Reagan boom, based on rising asset values, a lax budget, and a dollar so strong that it nearly wiped out those most exposed to import competition. For manufacturers it could echo the recovery after the 1987 stock market crash, led by export growth.

It is likely to be a pale reflection, though: exports are growing at only a third of their remarkable pace then, and domestic demand is flat (and likely to remain so). If the Gulf crisis intensifies, and causes a genuine oil shock in the importing economies of the USA's trading partners in

Europe and Asia, the recovery could peter out. There is another pale reflection, though, haunting the rest of the US economy: that of 1929, and a reversal of credited asset price inflation. The collapse of the junk bond market and the plight of the banks has been telling the financial story for some time. It is short of a catastrophe thanks to sensible credit limits in portfolio investment, and the deposit insurance system which, unlike 1929, transforms private loss into an addition to the national debt.

But the impact on the rest of the economy has only just begun. Construction output, for example, is still rising in money terms (though some 100,000 jobs have already been lost) but new starts in housing have fallen by more than a third in two years, while commercial development is at a standstill on the eastern seaboard, and falling rapidly in the golden west. As existing projects are completed, to become a nightmare for those who financed them, activity

after that incident. Personal bankruptcies are at a post-war record, but still mercifully low; but the eager borrowing of the Reagan era is over.

Consumer debt has for some time been growing more slowly than incomes - the counter-part of the steady (and largely unforeseen) increase in personal saving. This reflects not only reluctance to get into debt, but insecurity - about house values and job prospects. The ratio is likely to go

on recovering towards its norms of the 1970s, when 8-10 per cent of income was saved rather than the current 8 per cent or so, both because of caution and the ageing of the thirty-something generation into the balanced forties and high-saving fifties.

It is the troubles of corporations, though, which are dominating the economic prospect (not to mention the troubles of the banks). The corporate sector bought in more than \$500bn of its own equity in the 1980s, either in the course of takeovers or as protection against them: balance sheets are riddled with debt. The results can be seen most dramatically in property development, which is in acute distress, in the de-regulated airlines and in retailing, where trading margins are fairly normal but net profits have been halved in a year as cash flow is eaten up by debt service.

The corporate economy has largely embarked on a debt work-out - sometimes supervised under Chapter 11 of the bankruptcy laws, but generally voluntary, like the balance-sheet drive of British industry a decade ago. It is this which is ensuring that new buildings stand empty, is pinching spending on plant and machinery, and is even threatening the civil aircraft boom. Such adjustments are by nature slow, and will be slower than usual this time.

The vast bills run up in the Reagan era have fallen due, and although the recession may well be shallow, it is not easy to believe in the bounce-back promised by economists whose models, like the economy they represent, are weak on finance.



President Bush: about to renege on 'no new taxes' pledge?

## White House alarm over the economy has become generally shared

words in the election campaign, and discuss a budget package including tax increases.

Only in this way, it was argued, could confidence be restored, strain on the credit markets reduced, and the expansion be saved.

The President's judgement about the markets was quickly confirmed when the Federal Reserve moved shortly afterwards to cut interest rates by a mere 25 basis points, to offset the tighter lending criteria

Could Japan's economy turn sour? Ian Rodger investigates

# Tough monetary policy begins to bite

JAPAN'S economy has performed so strongly for so long that it is difficult to imagine it turning sour. It is now in the 46th month of an upturn, the second longest since the war, and most economists forecast that the boom will continue for some time yet.

For the current year, real growth of nearly 5 per cent is widely expected, in spite of the impact of the Gulf crisis.

However, even before Iraq's invasion of Kuwait, clouds were beginning to gather. Inflationary pressures, particularly from labour shortages, have become the main preoccupation of the authorities, and the Bank of Japan's monetary policy squeeze appears to be beginning to stifle corporate capital spending, which has been one of the main sources of growth.

Some economists suggest that the economy could peak and turn down in the first half of next year.

Undoubtedly, the major event in the Japanese economy this year has been the abrupt change in the authorities' approach to monetary policy, coinciding with the promotion in late December of Mr Yasuhiro Mieno to the position of Governor of the Bank of

Japan. Mr Mieno immediately made clear his displeasure with the sharp rise in share and property prices over the previous three years and his anxiety about new inflation pressures and excessive money supply growth.

The consumer inflation rate in Japan is only about 2.5 per

## Labour shortages have become acute, which could push up wages

cent, but labour shortages have become acute.

The jobs offered to job seekers rose in June to an extraordinary 1.47 to 1 level. If the shortage continues, competition for labour will become more intense, pushing wages up.

Meanwhile, money supply has been growing at 12 per cent or higher in recent months, although it has been distorted by shifts in saving patterns caused by deregulation of bank interest rates.

Since his arrival, Mr Mieno has raised the official discount rate (ODR) three times (the lat-

est in August, bringing it to 6 per cent, the highest since 1980) in an attempt to dampen these tendencies.

The first effect of this squeeze was to close the gap between Japanese and US interest rates, and recent figures show that flow of capital from Japan to the US has come to a halt.

Japanese investors registered net sales of \$8.9bn in US securities in the first half of this year, according to figures compiled by the Japanese Ministry of Finance.

BoJ officials have claimed that the possible impact of their policy on US interest rates is not uppermost in their minds.

This is a stark contrast to their easy money policy of the mid and late 1980s, which was aimed mainly at preventing a dollar collapse, and begs the question of whether it could be sustained if the US economy went into recession.

Higher interest rates also played a big part in the collapse of the Tokyo stock market this year, in contrast to past behaviour. BoJ and Ministry of Finance officials have gone out of their way to say that they are unconcerned.

Indeed, in the spring, when the slump appeared to have come to an end, one senior BoJ official suggested that the market had not fallen as much as he would have liked.

Mr Mieno added to the impression of toughness earlier this month when he told foreign journalists in Tokyo that he would welcome a gradual 20 per cent fall in property prices.

## The flow of capital from Japan to the US has come to a halt

despite the pressure such a development might put on some financial institutions.

The stock market crash has already put heavy pressure on the banks.

A large portion of the capital base of Japanese banks consists of unrealised profits on shares of client companies purchased long ago.

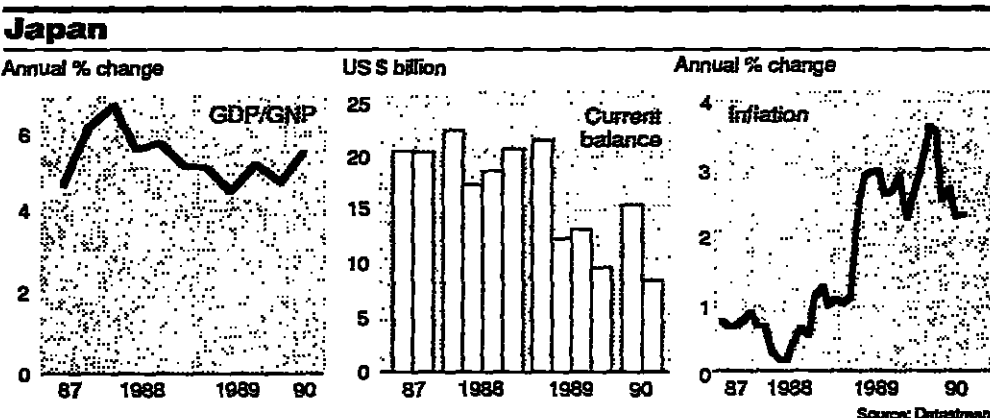
The value of those unrealised profits has, of course, dropped substantially this year, undermining the banks' capital ratios.

Leading banks had begun to take a more austere attitude to their customers early this year, but in recent weeks they have sharply curtailed new loan activity, and asset growth has virtually disappeared.

As Japanese industrial companies are flush with cash after four boom years, this credit squeeze is having no immediate impact on their capital spending plans.

Recent surveys suggest that corporate capital spending growth this year will be in double figures for the third year in a row.

However, many economists believe the squeeze - along with other factors, such as



Yasuhiro Mieno, Governor of the Bank of Japan

slowing profit growth - will make companies much more careful in setting their capital budgets for next year.

Within days of Iraq's invasion of Kuwait, analysts realised that the direct impact of higher oil prices on the Japanese economy would be modest. Energy conservation measures taken since the first oil shock in 1973 have made Japan an extremely efficient user of energy.

Thus, while the first oil shock knocked 6 per cent off GNP growth, nobody expects recent prices to shave off even 1 per cent.

The concerns are of more indirect impact. Many industrialists fear that oil price

increases will have a substantial negative effect on the economies of other major countries and thus weaken export markets.

Second, they fear that the BoJ will continue to push up interest rates out of concern about the impact of higher oil prices on domestic inflation.

If both these fears materialise, they too would make industrialists more wary of committing themselves to big capital spending projects next year.

Mr Robert Feldman of brokers Salomon Brothers in Tokyo forecasts that corporate capital spending growth will tumble from an estimated 10.7 per cent this year to 4.4 per

cent next year. He cites a recent flattening in machinery orders as an early indicator of the trend.

Another effect of tightened monetary policy has been strengthening of the yen in recent weeks.

This has been welcomed by the authorities and, if sustained, could have a number of positive effects. Not only would it reduce the inflationary pressure coming from imports, it could also dampen the troubling growth of exports over recent months.

The outlook for the trade and current account surpluses has been clouded by the Gulf crisis, with estimates for the current account surplus in the fiscal year to March 31, 1991 ranging around \$400bn, compared with \$53.4bn last year. However, the all-important trade surplus with the US will remain high, leaving economic policy vulnerable to political pressure from the US.

And that is the big question

## The stock market crash has already put heavy pressure on the banks

mark over current economic policy. If it produces a significant slowdown at a time when other major economies are also weakening, Japan will come under great pressure to play a locomotive role.

The Ministry of Finance will undoubtedly mean that it has to avoid deficit financing, but as Japan has the lowest net debt position of any country in the OECD, this argument will not be sustained.

Moreover, in the Structural Impediments Initiative (SII) talks earlier this year, the Japanese Government committed itself to large public works expenditures in a counter-cyclical way over the next decade.

Similarly, current tight money policy will be difficult to sustain if it becomes apparent in the next few months that it is forcing the US to raise interest rates at a time when the US economy is weakening.

Many in Tokyo are surprised that this pressure has not already materialised.

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Laszlo Burian	Assistant Professor, Eotvos Lorand University
Gabriele Hornig	Audit Manager, Arthur Andersen & Co
Sandor Palfi	Director, Hungarian Biztosito
Istvan Rac	Head of Dept., Citibank, Budapest
Tamas Sandor	Dr., Institut fur Staats- und Rechtswissenschaften der U.A.W., Budapest
Anita Tényi	Senior Manager, PostaBank
Zita Tényi	Manager, Central European International Bank
Anthony Timmins	Senior Manager, Price Waterhouse
Hubertus Wiens	General Manager, Arthur Andersen & Co

## SEMINAR PROGRAM

(based on CROSS-LEASE, the new leasing information system)

Monday, 12 November 1990	
08.30	Assembly, registration, morning coffee
09.00	Opening of the Seminar
09.15	Overview of Hungary Today
09.30	The Hungarian Legal System in Development (Bacskai)
10.15	Public Control (Hornig/Wiens)
10.45	Leasing in Hungary (Zita Tényi)
12.00	Lunch
14.00	Accounting (Hornig/Wiens)
15.00	General Private Law (Sandor)
16.00	Tort Liability/Insurance (Palfi)
16.30	Import Regulations (Hornig)
18.30	Cocktail (Hungarian Leasing Companies Invited)
19.30	Dinner

Tuesday, 13 November 1990	
09.00	Taxes (Balazs)
09.45	Tax Treaties (Balazs)
10.15	VAT/Sales Taxes (Timmins)
11.00	Funding/Incentives (Rac)
12.00	Lunch
14.00	Insolvency Law (Anita Tényi)
14.30	Conflict of Laws (Burian)
15.00	Leasing Contract Law (Anita Tényi)
16.00	Summary of the Seminar (Bacskai)
	Closing of the Seminar

All speakers will use English language

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Will merger mean triumph or crisis? David Marsh reports

## Germany discovers the price of reunification

RAPIDLY-UNIFYING Germany is straddling a thin line between triumph and crisis. The merger of the two states which takes effect on October 3 is bringing an unparalleled economic transition to the eastern half of the country -

### East Germany faces a period of brutal economic transformation

an area run on totalitarian lines between Hitler's take-over in 1933 and last autumn's bloodless revolution.

In the long term, German reunification is condemned to succeed. In a state take-over which in the past has been witnessed only as a result of war or annexation, an infusion of West German money, talent, know-how and ideas is bound to produce an economic boom east of the Elbe. The drawback is that, over the shorter term, East Germany faces a period of brutal economic transformation which could spill over towards dampening the otherwise healthy prospects of the rest of the country.

As it stands, Germany is ideally poised to turn the long-desired goal of unity into an economic success story. West Germany is now in its eighth successive year of recovery

after the 1981-82 downturn, with gross national product this year due to rise by 4 per cent, the same as 1989. The country has emerged from the growth doldrums of the mid-1980s. The economic stimulus of unification has been calculated to be adding an extra percentage point per year to West German GNP - representing a supply- and demand-side boost to the whole of Europe.

In East Germany, the picture could not be more different. Ironically, as 40 years of division are being overcome, a colossal economic split is opening up. East German GNP is expected to fall by about 10 per cent this year, an inevitable result of closure of inefficient companies caused by the chill wind of competition after the introduction of the D-Mark on July 1.

Latest figures suggest that the decline could be even greater. Industrial production in East Germany fell by 42 per cent in July compared with

### 'It is necessary to go through a process of creative destruction'

July 1989. Government officials in Bonn admit that ministers, from Chancellor Helmut Kohl downwards, have been taken

aback by the speed and completeness of the East German economic collapse.

A favourite theme of German managers and economists is that East Germany during the next year or so must traverse a "valley of tears". If the process runs relatively smoothly, Mr Kohl - the first Chancellor of a united Germany since 1945 - will reap huge benefits in both human and political terms. But if East Germany proves unexpectedly resistant to the new doctrines of the market-place, not only the German economy, but also the whole of the continent, is likely to suffer.

Mr Kohl says October 3 will be "a day of joy" for all Germans. But he has coupled this with repeated warnings in recent weeks that the adjustment from Communism to capitalism will be "anything but easy". Sobriety has been increased by anxieties about the effects of the Gulf crisis. But even before the Iraqi invasion of Kuwait, one key Bonn official went to pains to warn against *Schadenfreude* abroad about the potential problems facing Germany. Referring to the still greater adjustment difficulties in other parts of eastern Europe, he said: "If we can not make a success of reunification, who is likely to succeed anywhere else?"

The West German Economics Ministry commented in its August monthly report that

the sharp increase in unemployment and short-time working in East Germany was "not surprising". In August, 361,000 were out of work, while 1.4m were on short-time, many in enterprises facing bankruptcy - a massive psychological

### Some selective increases in taxes and levies look almost certain

challenge in a state which, under the highly inefficient Communist system, was used to nominal full employment. Unemployment in West Germany, meanwhile, has been falling steadily, and in August was around 1.8m.

"It is necessary to go through a process of 'creative destruction' in which unprofitable jobs disappear and are replaced by new ones in competitive companies," the ministry said. Destruction, however, precedes creation, and there has been much bitterness east of the Elbe at the sluggish pace of new investment by big West German companies. The resignation in August, after only five weeks in the job, of Mr Reiner Gohlke, the head of the Treuhand agency supervising 8,000 sickly East German enterprises, was a sharp blow to confidence.



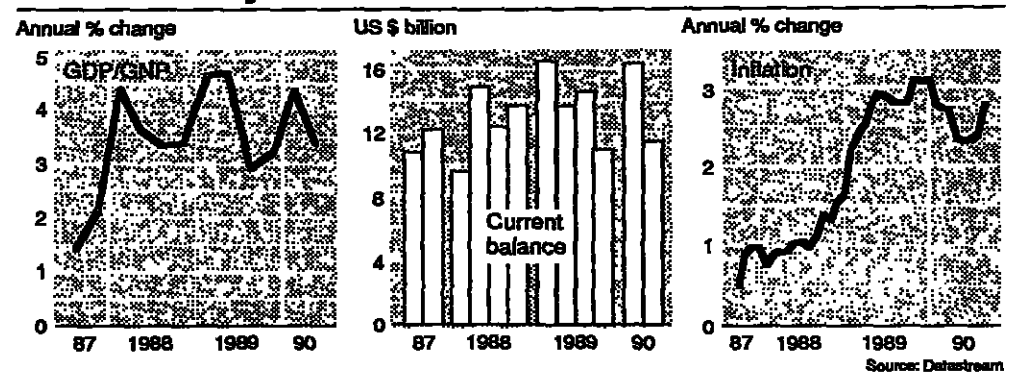
West German Chancellor Helmut Kohl (right) and East German Prime Minister Lothar de Maiziere toast unity

The Bonn Government hopes that full political unity, following the bringing together of the monetary, fiscal and social security systems in July, will give an important stimulus to investment in the East. Perhaps most importantly, Bonn has been anxious to clear up uncertainties about property ownership in the formerly collectivist eastern state, which has been a significant handicap to investment.

Much higher than expected unemployment in the East, together with sluggish tax collection, has sharply increased financing costs, however. Mr Theo Waigel, the Finance Minister, has been badly embarrassed by having to introduce a third supplementary budget for 1990, which may total more than DM20bn. Borrowing for all parts of the public sector is likely to be well over DM100bn next year - a prime factor (along with the Gulf crisis) pushing up interest rates.

The issue of financing unit costs will be a major theme in the December 2 general election, Mr Oskar Lafontaine, the

### West Germany



Social Democrat candidate for Mr Kohl's job, has called for tax increases to take strain off the capital markets. The centre-right coalition has roundly rejected this course of action - though Mr Kohl has lately been less emphatic than a few months ago in ruling it out. The Government has decided, however, to put on ice a promised DM25bn worth of tax cuts for companies and high earners. Some selective increases in

taxes and levies look almost certain next year. Mr Lafontaine's chief election hope has been a negative one. He knows that the majority of West Germans regard unification with sympathy, but with no great enthusiasm. He is banking on the deterioration of the East German economy, coupled with the lack of national solidarity, rebounding on Mr Kohl's Christian Democrats on December 2.

The SPD line may well backfire. Mr Kohl will try to use the two months "rump" parliament between October 3 and December 2 to push through emergency economic measures to shore up the east. Even if, as is quite possible, the transition process in the former Communist state becomes still more destructive, the SPD seems unlikely to benefit. In an economic crisis, Germans do not tend to vote for the Left.

France is suffering from the slowdown, writes George Graham

## Socialist government shows its monetarist slant

FRANCE'S Socialist Government was not wholly thrilled this spring to be hailed by the Financial Times as more monetarist than Mrs Margaret Thatcher.

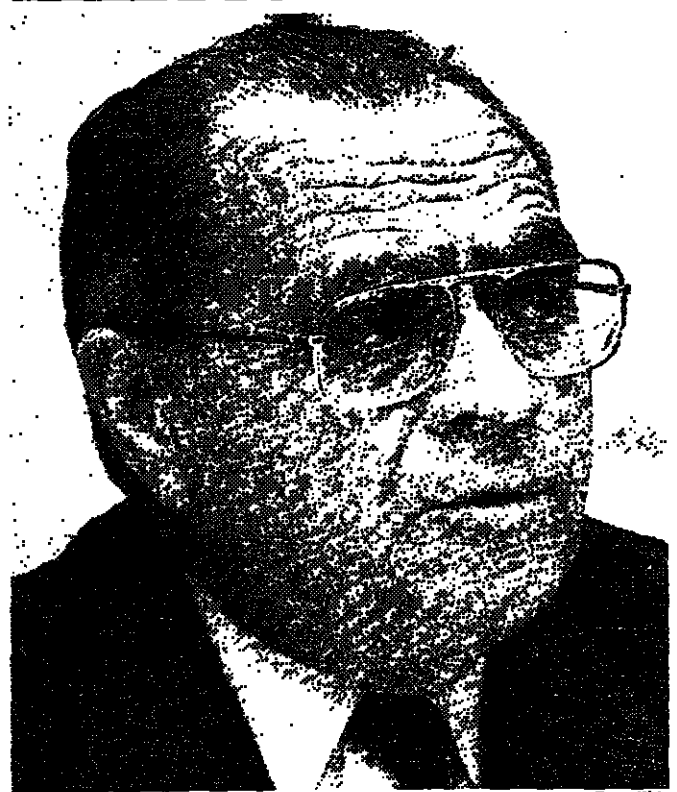
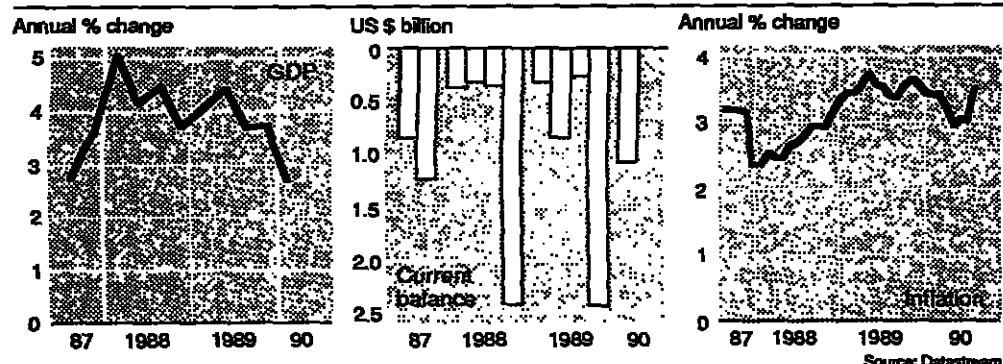
The compliment may have been double-edged, but it was still a compliment, and was greeted as a welcome recognition that after all its efforts since the policy about-turn of 1983, France had joined the ranks of the hard currency nations.

Prospects for growth, inflation and even unemployment placed France among the industrialised world's strongest economies.

Six months on, the outlook is structurally the same, but forecasters are much more cautious about how high French growth can go and how low French inflation.

The shock to oil prices provoked by Iraq's invasion of Kuwait helped to draw back the curtain, but the signs were already becoming evident that France was suffering more

### France



Finance Minister Pierre Bérégovoy

favour of Iran. In 1978, Iraq and Kuwait accounted for 11 per cent of total French oil imports, but last year Iraqi shipments dropped to 5.7m tonnes, 7.5 per cent of all imports, and Kuwaiti deliveries were virtually non-existent.

The consequences of higher oil prices are therefore not expected to be any more marked for France than for

### The oil shock has been modest compared with 1973-74 or 1979-80

major competing economies, such as Japan or West Germany.

The forecasting unit Observatoire Français des Conjonctures Economiques (OFCE) estimates the impact of an oil price of \$27 per barrel on French growth at -0.15 of one percentage point this year and 0.2 of one percentage point in 1991.

This is slightly less than the impact on West Germany and substantially less than that on Japan, OFCE says.

Inflation, on the other hand, could accelerate somewhat more in France than in West Germany or Japan, but OFCE's estimate of 0.4 of a percentage point in 1990 and a further 0.7 of a point next year remains relatively moderate.

Mr Pierre Bérégovoy, the Finance Minister, appears to have little quarrel with these estimates. He has made some FF10bn of adjustments to the 1991 budget, presented two weeks ago, but has not opted for a complete overhaul, which would, in any case, have been difficult in the time available.

These adjustments will have the effect of tightening up on Government spending, which is expected to rise by 4.5 per cent compared with the 5.6 per cent initially programmed, and of reducing the tax burden on companies, notably through a reduction in the rate of tax on undistributed profits.

The modifications in favour of companies, however, have sharpened a feeling of unease in the majority Socialist Party, many of whose members feel that the policies of "austerity" and "rigour" which have succeeded each other since the about-turn of 1983 have gone

on long enough, and that it is time for the Government to show that it is still socialist.

For the time being, Mr Bérégovoy appears to have won the argument with President François Mitterrand coming down firmly on his side. All the same, the Government faces a stiff debate with its own supporters in Parliament over whether the tax on undi-

### Government spending is set to rise by 4.8%, rather than 5.6%

tributed profits should be cut by three percentage points to 34 per cent, as Mr Bérégovoy wants, or only by two.

"I see that the socialists don't want to hear of austerity or rigour. I am waiting for them to invent a third word," scoffed Mr Raymond Barre, the centre-right economist who was Prime Minister from 1976-81, during the last oil shock.

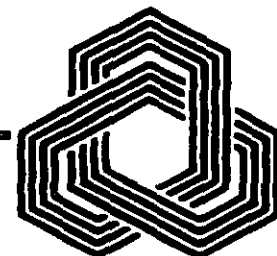
Mr Bérégovoy may have the last laugh over Mr Barre, however, for if one thing is clear, it is that his ministry is determined to avoid the policy mistakes that led France to suffer so severely from the oil shocks of 1973 and 1979.

"Last time, we failed to avoid the inflationary process. Our first concern is to avoid that, by aiming for the least possible inflation, beyond the mechanical effects of higher oil prices, with the least possible indexation of wages," comments one of Mr Bérégovoy's advisers.

As OFCE observes in a recent study\*, the first oil shock reduced French GDP by 2.1 per cent between 1973 and 1975, but over the same period the share of business in GDP fell by 3.3 percentage points, while households gained 4.7 percentage points. Again, the second oil shock, coupled with a rise in the dollar, cut French GDP by 3.4 per cent, but business's share fell by 3.9 percentage points, while households gained 0.9 of a percentage point.

Ironically, it may take a socialist Government to ensure that companies do not have to bear the entire burden of adjustment.

\*L'Economie Française depuis 1967, edited Jean-Marcel Jeanneney, published by Seuil.



## ARAB PETROLEUM INVESTMENTS CORPORATION

### FINANCIAL POSITION 31 DECEMBER

In Millions of US \$

ASSETS			LIABILITIES		
	1989	1988		1989	1988
Cash and due from Banks	99	137	Due to Banks	288	260
Marketable Securities	309	308	Provisions and Others	50	47
Loans	420	353	Shareholders' Funds	607	603
Equity	79	78			
Fixed and Others	38	34			
Total Assets	945	910	Total Liabilities	945	910

### FINANCIAL RESULTS 31 DECEMBER

In Millions of US \$

	1989	1988
Net Operating Income	42	23
Less: Risk Provision	18	7
Net Income for Year	24	16
Income b/twd from Previous Year	36	42
Income Available for Distribution	60	58
Dividend for the Year	20	20



## WORLD ECONOMY 6

Eastern Europe will find change difficult, writes Anthony Robinson

## From communism to capitalism

FOR THE newly capitalising economies of formerly Soviet-controlled eastern and central Europe, times are hard and likely to get much harder over the next year.

The UN Economic Commission for Europe estimates that industrial production in the six countries, including East Germany, fell by 13.4 per cent in the year up to the end of the first quarter of 1990.

Since then the pace of factory closures and the dissolution of bureaucracies has speeded up. As demolition of the formerly centrally planned system proceeds apace, unemployment lines are growing longer while inflation and currency depreciation bite deeply into already low real incomes and living standards. The governments which emerged from the relatively free elections throughout the area this year will be sorely pressed to cope with the social and economic strains tearing at societies still heavily conditioned by the long years of one party rule.

The emerging pattern is fragile and highly variegated, reflecting the underlying historical and cultural complexity of an area roughly soldered into an apparent economic and political similarity by the imposition of an alien system but now re-emerging with all its ethnic and other tensions intact.

But economically all share common features as they enter the tunnel of transition to market-based systems. All are cutting price subsidies, preparing

for privatisation, creating new institutions to cope with unemployment and attempting to construct a legal framework which permits private ownership of land and resources and a framework for foreign investment.

Some, like Poland, have already achieved currency convertibility by the simple, but painful decision to devalue down to the former black market rate. Others view convertibility as a major target still to be achieved.

The pain of demolishing the artificial, but to some extent comfortable, rigidities of the centrally planned system has been accentuated by the recent rise in world oil prices.

A study by Credit Suisse First Boston estimates that each \$5 per barrel rise in the oil price from the 1985 level of around \$16 per barrel adds \$3bn annually to the global oil import bill of the six countries, more than 1 per cent of their combined GDP.

Hitherto, Comecon rules have partly sheltered the region from such shocks. But from January 1991 rapidly declining intra-Comecon trade will be conducted on a world price equivalent, hard currency basis.

This means that Soviet oil will be sold to eastern and central Europe at the world price, ending what had been an effective Soviet subsidy worth an estimated \$16bn annually at 1988 prices.

The shock of simultaneously having to adjust to a major

change of rules in intra-Comecon trading and seek a new basis for integration into the global capitalist trading and investment world is doubly unsettling.

However, the longer term consequence of the Gulf crisis should be to speed up long needed efforts to curb energy consumption by improving energy efficiency.

In many cases, especially in East Germany, Poland and Czechoslovakia, this will mean speedier closure of energy inefficient, and usually polluting, heavy industrial plant.

While this will cause major social problems in the affected areas, many such factories hitherto supplied steel or machine tools to the Soviet Union where the ultimate customer was the Soviet military-industrial complex. This sector is due for savage pruning, which would in any case have cut back orders from Comecon countries.

Another consequence of higher oil prices should be to ensure that the re-equipment of east European industries incorporates energy saving technology which would both reduce future dependence on imported fuels and lower the present lethal levels of pollution in heavily industrialised areas.

Recent developments have underlined the emergence of a "two tier" structure in eastern Europe, mirroring to some degree similar developments in western Europe where the UK and other weaker economies

are hard pressed to adopt the economic and political disciplines required to move from stage one of the Delors plan to the stated goal of economic and monetary union.

Apart from East Germany, with its rapid re-incorporation into a unified German state, the main "fast track countries" are Poland and Hungary, which are also those with the heaviest burden of external debt.

Czechoslovakia, with lower debt, a more sophisticated industrial workforce and stronger social democratic traditions, has more leeway to proceed more slowly and with less social dislocation. Romania and Bulgaria form the weaker southern rim, with shaky industrial and political structures but considerable agricultural and tourist potential and useful trading links with the middle East.

Poland recently proposed to the Paris club of western creditors that it should pay off the \$40bn debt accumulated by the Communist Government at a discounted rate of 17 cents on the dollar. The proposal was immediately rejected, but there is growing recognition by western Governments and bankers that drastic action is required if the harsh economic sacrifices made by Poles in the name of conversion to a capitalist system are to bear long term fruit.

Over the first seven months of this year Poland achieved a \$3.48bn hard currency trade surplus as the shift to a market

economy slashed domestic demand and foreign imports while industrial sales fell by 29 per cent.

Inflation dropped from the hyper levels of 1989 as strict controls on wages absorbed the previous monetary overhang. On the flip side unemployment soared as real incomes fell.

Thus far the political consensus behind radical economic changes remains intact. In July, Parliament voted with convincing majorities to proceed with large scale privatisation. More than 7,000 enterprises, accounting for 80 per cent of industrial output, could be up for sale.

In Hungary, whose \$20bn foreign debt is the highest per capita in eastern Europe, the current account also swung into a \$200m surplus over the first half of this year from a deficit of \$1.1bn in the same period of 1988.

Behind the surplus lies a conscious decision to shift trade away from Comecon to the west and strongly rising receipts from hard currency tourism.

Unlike their Polish counterparts, the Hungarian authorities managed this radical shift in trade without a dramatic fall in output. Inflation remained high, at around 27 per cent on an annual basis in July, but overall GDP is not expected to fall more than 2 per cent this year, after a steep fall at the beginning of the year when soft currency exports to the Soviet Union were deliberately cut.



Prime Minister Nikolai Ryzhkov's reform plans do not have President Gorbachev's support

## SOVIET UNION

## Radical proposals gather momentum

AFTER five years of tumultuous political change, the Soviet economy is in perilous limbo. The Stalinist-style centrally planned, command economy has failed, but an alternative market and service-oriented system remains to be created.

The economy has steadily worsened under Mr Gorbachev. His initial attempts at "reform" showed that he came to power unaware of the true depth of the economic crisis and ill-prepared by his progress through party ranks to comprehend that the political and economic crises of the Soviet system were inextricably linked.

He has learnt much on the job. But initially, like his mentor the late President Yuri Andropov, he believed that the economy could be put to rights if the workforce could be bullied or cajoled into working faster, stay sober on the job and be supplied with new machine tools from the west.

Instead, the state lost billions of roubles in revenue, adding to the inflationary budget deficit which has grown to around 10 per cent of GNP while prohibition created a whole new criminal sub-class of bootleggers. Meanwhile, industry continued producing the same old, mainly military products but less efficiently as equipment aged and the transport system deteriorated against a background of rising labour unrest and increasing shortages. The service industries remained rudimentary or non-existent.

Arguably the only tangible economic achievements of the Gorbachev years to date have been by-products of a brilliantly successful foreign policy. Major drains on the Soviet exchequer like the war in Afghanistan and support for despotic regimes throughout the Third World have been drastically cut. Billions of extra dollars should flow into Soviet coffers with the ending of disguised subsidies to eastern Europe and the conversion to hard currency trading at world market prices for vital commodities such as oil and gas.

Finally, after years when sheer inertia saw military output and exports continue at high and even growing levels, production has also started to drop in military factories.

Resources are now becoming available either for export or re-deployment in the civilian sector. Much hangs on the efficiency with which former military plants are handed over to Soviet and foreign entrepreneurs for conversion to civilian production.

Perhaps most importantly, the last five years have seen the build-up of what is now a probably unstoppable momentum behind even more radical proposals for creating the sort of market economy which is compatible with the political, social and cultural aspirations of a population freed at last from decades of fear and ignorance.

The emergence of new and radical economists has led to a slaughter of socialist sacred cows and bitter in-fighting between "conservatives" in the old planning apparatus and the

more federative Soviet Union of the future.

The Yeltsin plan, originally drawn up for the Russian Federation alone, calls for legislation within the 100 days of the start of implementation in October to guarantee full private property rights to Soviet citizens and foreigners. Stage two, between 100 and 250 days, requires large scale privatisation of state assets coupled with a streamlining of the central bureaucracy through the merger or abolition of 23 central ministries. Stage 3, to be introduced between 250 and 400 days, calls for de-control of prices. The last 100 days will be devoted to an as yet vaguely identified "stabilisation programme".

Whether just changing the laws will in itself change the situation on the ground remains to be seen, although one of the pre-requisites of market-orientated reform and foreign investment is the establishment of a clear framework of known and enforceable laws. Another is creating the conditions for a convertible rouble, along the lines already successfully carried out by Poland.

The overriding priority of the Soviet Government is to create conditions for the reintegration of the Soviet economy into the wider world of international trade, production and investment. But, again, it remains to be seen whether the Soviet Union as it has existed since the civil war of the 1920s will continue for much longer as a unified economic entity with a single currency.

Increasingly assertive republican governments, especially the Baltic states and above all the Ukraine, are pressing for full independence, including their own currencies and banking systems, before re-negotiating as sovereign powers the details of a future confederal system to replace the Soviet Union as created by Lenin and set in concrete by Stalin.

The idea of one huge, unwieldy market of 290m potential consumers on which many western companies and institutions have based their assumptions looks increasingly unrealistic. Debate, both inside and outside the Soviet Union, is likely to focus increasingly on the likely economic and political consequences of this "Balkanisation".

Anthony Robinson

## BASIC INDICATORS FOR CENTRAL AND EASTERN EUROPEAN COUNTRIES

	Soviet Union	Bulgaria	Czechoslovakia	German Democratic Republic	Hungary	Poland	Romania	OECD
<b>General indicators</b>								
Population (m, 1988)	286.4	9.0	15.6	16.6	10.6	38.0	23.0	824.8
GDP (\$bn, 1988)	1,590.0	50.7	118.5	155.4	58.8	207.2	94.7	12,073.0
GDP per capita, \$	5,552.0	5,633.0	7,603.0	9,361.0	6,491.0	5,453.0	4,117.0	14,637.0
Growth of GDP								
1971-80	3.1	2.8	2.8	2.8	2.6	3.6	5.3	3.3
1981-85	1.7	0.8	1.2	1.9	0.7	0.6	-0.1	2.5
1986-88	2.3	1.9	1.5	1.7	1.5	1.0	0.1	3.5
<b>Living standards (1987)</b>								
Cars per 1000 inhabitants	50.0	127.0	182.0	206.0	153.0	74.0	11.0	385.0
Telephones per 1000 inhabitants	124.0	248.0	246.0	233.0	152.0	122.0	11.0	542.0
<b>Structural indicators</b>								
Share of labour force in agriculture	21.7	19.5	12.1	10.2	18.4	28.2	28.5	8.0
Gross domestic investment/GDP	38.2	32.7	24.7	29.2	28.5	36.5	37.1	20.8
Share of private enterprise in NMP/GDP	2.5	8.9	3.1	3.5	14.6	14.7	2.5	70-90
Energy use per unit of output	2.6	2.2	1.9	1.6	1.5	1.9	2.7	1.0
% of workforce with secondary or higher education	27.3	n.a.	29.4	n.a.	33.8	28.9	n.a.	61.0
<b>Trade indicators</b>								
Total exports of goods, % of GDP	6.8	23.0	19.7	13.7	14.7	6.4	11.2	14.4
Manufactured goods exports as share of exports to non-socialist countries	63.1	59.3	72.4	77.3	79.6	63.4	50.6	81.8
Percentage change of share of OECD markets								
1978-89	-26.7	-18.5	-44.0	-25.2	-7.8	-32.3	-46.3	-
1986-89	-13.0	-18.9	0.9	-9.1	1.5	-23.5	-27.8	-

Source: OECD Economic Outlook

Martin Wolf assesses the effects of Poland's transition

## Journey into terra incognita

THE SOLIDARITY Government in Poland, now in office for a year, is engaged in a task that deserves the label "Leninist". When Lenin seized power in the Soviet Union he initiated a revolution in the name of a class, the proletariat, that did not as yet exist. His dictatorship of the proletariat was, therefore, the dictatorship of a self-selected vanguard.

Now in Poland, a revolution - more precisely, a counter-revolution - is being attempted in the name of an as yet non-existent capitalist class. But the Polish Government rules by consent. It is there because of popular hatred for its Communist predecessor, not because the public shares (or fully understands) its liberal goals. It is an open question whether the people will tolerate a revolution that will not merely unsettle so many of their prejudices, but offers its pot of gold at the end of so long a rainbow.

The length of that rainbow is explained by the legacy the Government has inherited. What Polish industry produces few would freely buy; management is used to meeting the dictates of planners, rather than the demand of consumers; workers are unaccustomed to working; and, to add insult to all these injuries, the previous Government liberalised prices and wages in the summer of 1989, so precipitating hyperinflation.

Outlines of the new Government's programme were introduced by Mr Leszek Balcerowicz, Finance Minister and Deputy Prime Minister, at the meetings of the IMF and World Bank a year ago. It had two parts: stabilisation and liberalisation, with the former viewed as a precondition for (and element in) the latter.

The stabilisation programme was finally introduced in the beginning of January 1990, following agreement with the IMF. It had the following main elements:

- the budget deficit was to be reduced to 1 per cent of gross domestic product (from a deficit of more than 8 per cent of



Finance Minister and Deputy Prime Minister Leszek Balcerowicz's reforms have devalued and unified the exchange rate, stabilising it at 9,500 zloty to the dollar



gdp in the previous year) by means of a sharp cut in subsidies and investment spending; tight control was to be placed on money and credit, through a sharp increase in real interest rates;

- the exchange rate was to be devalued, unified, made convertible for residents on current account, and stabilised at 9,500 zloty to the dollar;
- nominal wage growth was to be limited through the reinforcement of penal taxation on increases in the wage bill above pre-determined norms;
- prices were to be liberalised, except in certain sectors, where increases would be imposed; and
- import controls were to be eliminated, allowing free import of most goods over a 20 per cent tariff, with a few exemptions, along with surcharges on luxuries.

Judged by its main goals, the programme has been a success. The shortages have disappeared, along with the queues that were their principal symptom. The Government budget has even been in surplus. After a surge of corrective price rises in January, inflation was down

to 3.4 per cent in June. But inflation in June was still running at an annual rate of 50 per cent, a level that is not only too high, but from which it can easily accelerate once more.

Despite these successes, the response of the economy has confirmed the fears of the pessimists. January saw a decline in officially recorded output in the state sector, by almost 32 per cent, with real wages showing a similar decline. Once down, the economy has stayed down, with real output in the first half 23 per cent below the corresponding level of the previous year and measured real incomes down 31 per cent. In short, the managers of the more than 7,000 state enterprises have gone into hibernation.

The decline in output and real income may not be as significant as it seems. Much of Polish industrial output was of "backs" rather than goods. Furthermore, the real wages supposedly earned in previous years were largely notional, partly because goods in the price index were unavailable at official prices, other than by queuing or political influence.

The torpid response has even had its good side. For example, a \$2.1bn hard currency trade surplus in the first half of the year provides a cushion for Poland's attempt to cope with the current shock of higher oil prices. Equally the tendency to put employees on leave rather than dismiss them has limited increase in open unemployment, which reached only 62,000 by mid-July, 4 per cent of the labour force.

None the less, the economy must wake from hibernation. Competition is provided by trade liberalisation. But the creation of a more entrepreneurial attitude necessitates privatisation. People must be allowed to get rich from the more effective use of dormant public assets.

The Government began to turn to this task only this summer, following passage of the enabling legislation. After belated recognition that the British approach to privatisation is inapplicable to Polish circumstances, Mr Balcerowicz has recently announced an accelerated programme of privatisation. The aim is to transform the ownership or control

of 50 per cent of Polish industry by the end of next year. The chosen means are a mixture of sales, distribution of shares to the population (via a voucher scheme) and "commercialisation" through transfer of management to banks, investment and insurance funds.

Such restructuring represents a journey into terra incognita. Stabilisation is a politically intractable, but technically well defined problem, with well known solutions. The comprehensive restructuring of a Soviet-style economy is quite another matter. The destination may be clear enough; the feasibility of any particular route is not. Unfortunately, the path has been made more difficult by the economic and political collapse of Poland's most important trading partner, the Soviet Union, by the dead weight of more than \$40bn in external debt and, last but not least, by Iraq's grab for Kuwait.

This year Soviet oil supplies are 30 per cent below promised levels. Now Poland has to grapple with the virtual doubling in the world price of oil. In addition, the Soviet Union plans to move to world prices and hard currency payment on its deliveries, a shift that is expected to cost Poland \$1.5bn. In effect, Poland will experience the first oil shock only now, a shock that is magnified by the energy-intensity of output, which is roughly double that in OECD countries.

Poland will need far more help than it has yet received, including a radical writing down of its external debt. Even with such help, opposition of both people and intellectuals to the economic counter-revolution may yet doom it to failure. The Polish people could find themselves mired in Latin American frustration, with political chaos preventing the birth of a functioning economy and economic chaos, in turn, embittering political life. The only alternative is boldness and persistence in the Government, along with both more luck and more external assistance than this hapless country has obtained so far.



President of the Russian Federation Boris Yeltsin has seized the economic initiative

Handwritten text: "The Yeltsin plan"



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**UNCERTAINTY** paralyses investors. Iraq's invasion of Kuwait is the latest addition to uncertainty for the world's financial markets this year.

It has had two consequences. First, the psychological shock of the unexpected; second, the realisation that inflation would rise and growth slow. The former was more emphatic, having followed a period of international reconciliation, but the latter has come to dominate sentiment.

Economists had, in any case, been making their forecasts less optimistic. At the start of the year analysts made 12 month estimates for 3,000 on the FT SE-100 index, 3,500 on the Dow Jones, Japanese inflation of 2.1 per cent, ten year German bonds yielding 6.8 per cent and for a dollar worth 1.7 D-Mark and £1.50. All of these had been looking increasingly unlikely by mid-year.

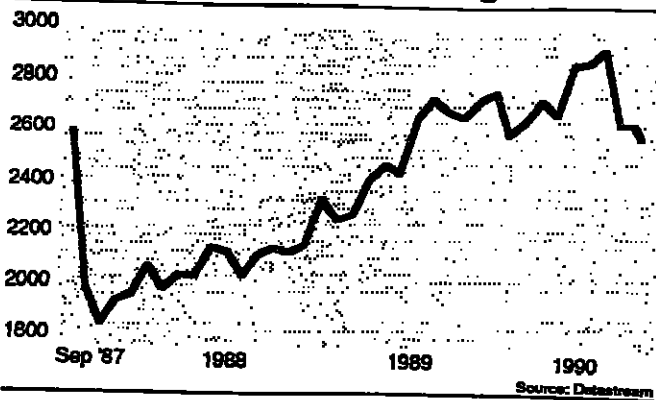
Now that events in the Gulf have given index trends an extra twist, of unpredictable size and in the wrong direction, markets will make no false moves until the smoke has cleared.

That caution means even less business in equity and capital instrument trading. London, for example, has seen its lowest share trading volumes since the 'Big Bang' deregulation of 1986. This is no sea change, however. Investment institutions have become ever more safety-minded and short-termist in the wake of the crash of 1987, the mini-crash of 1989, the rising cost of German unification, the return of inflation to Japan and the apparent inability of the US and UK economies to shed their industrial and deficit shortcomings.

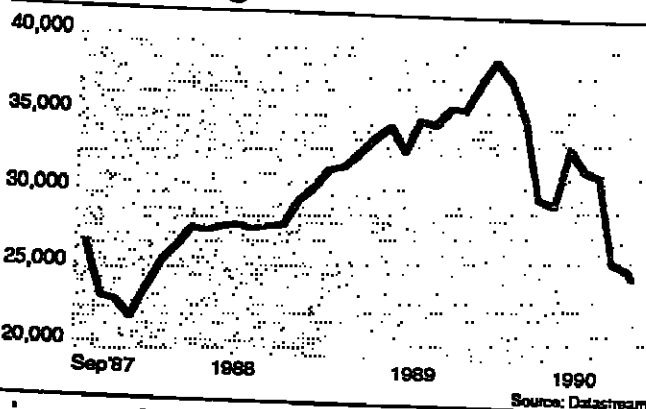
Risk is out, although the effects of a switch to safety vary between markets. Government bonds are favoured over their corporate counterparts. The logical consequence - a rising yield gap between, say, Eurobonds on the one hand and gilts on the other - has only been realised to a certain extent. The rate of new Euro-bond issuance has fallen with demand, while West Germany's recognition that taxes alone will not pay for the reconstruction of the East has kept Government bond markets supplied. Last month's auction of DM9bn of unity bonds was not a success, but analysts believe unity bonds will account for more than half next year's DM60bn plus injection of new German Government bonds.

Yields have had to rise to attract investors. Yield curves have become more positive as

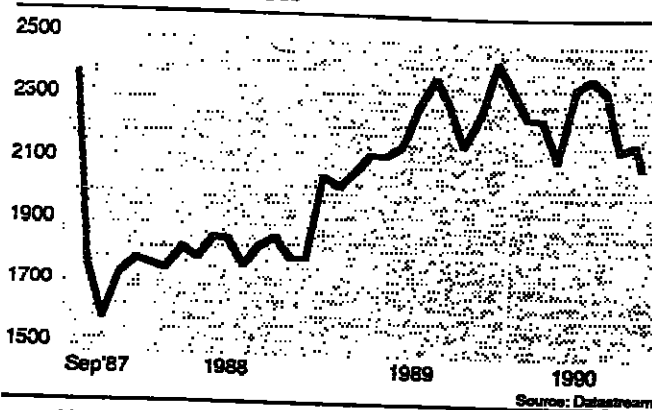
Dow Jones Industrial Average



Nikkei Average



FT-SE 100 Index



Caution means less business in equity and capital instrument trading, writes Daniel Green

## Markets paralysed by uncertainty

inflationary and political risks weigh on the distant future. Holders of long-dated bonds have switched to the short end and those already there have moved into cash, everybody's flexible friend. Cash looks safe because governments and central banks are willing to trade

growth for a currency's value by raising interest rates. If inflation makes bonds unpopular, then slowing growth makes shares downright dangerous.

In Japan, where equities have suffered a slow motion crash since January, the dis-

count rate and inflation have trebled over two years. The labour market is tight and land prices are still strong. Share trading is light and markets fear a recession: if land follows equities, the fall in net wealth might prompt the traditional Japanese response of an

increase in savings. This would hold back demand at a time of industry's growing reliance on home markets.

Outside equities, Japanese markets remain popular. Gulf tension helped the yen, after an initial fall on conventional dollar-as-safe-haven wisdom.

Japan imports almost all its oil, but consumes less as a percentage of GNP than most other industrialised countries. Japan's challenges look manageable, especially to Japanese institutions which have been repatriating funds from foreign markets.

Investors take a different view of the US. The Reagan decade was a feast of risk-taking, typified by the junk bond, which has turned into a serious case of indigestion. The collapse of Drexel Burnham Lambert in February convinced the remaining revellers that they had taken poison. The fate of Drexel and savings and loan associations has helped make risk aversion the priority for banks.

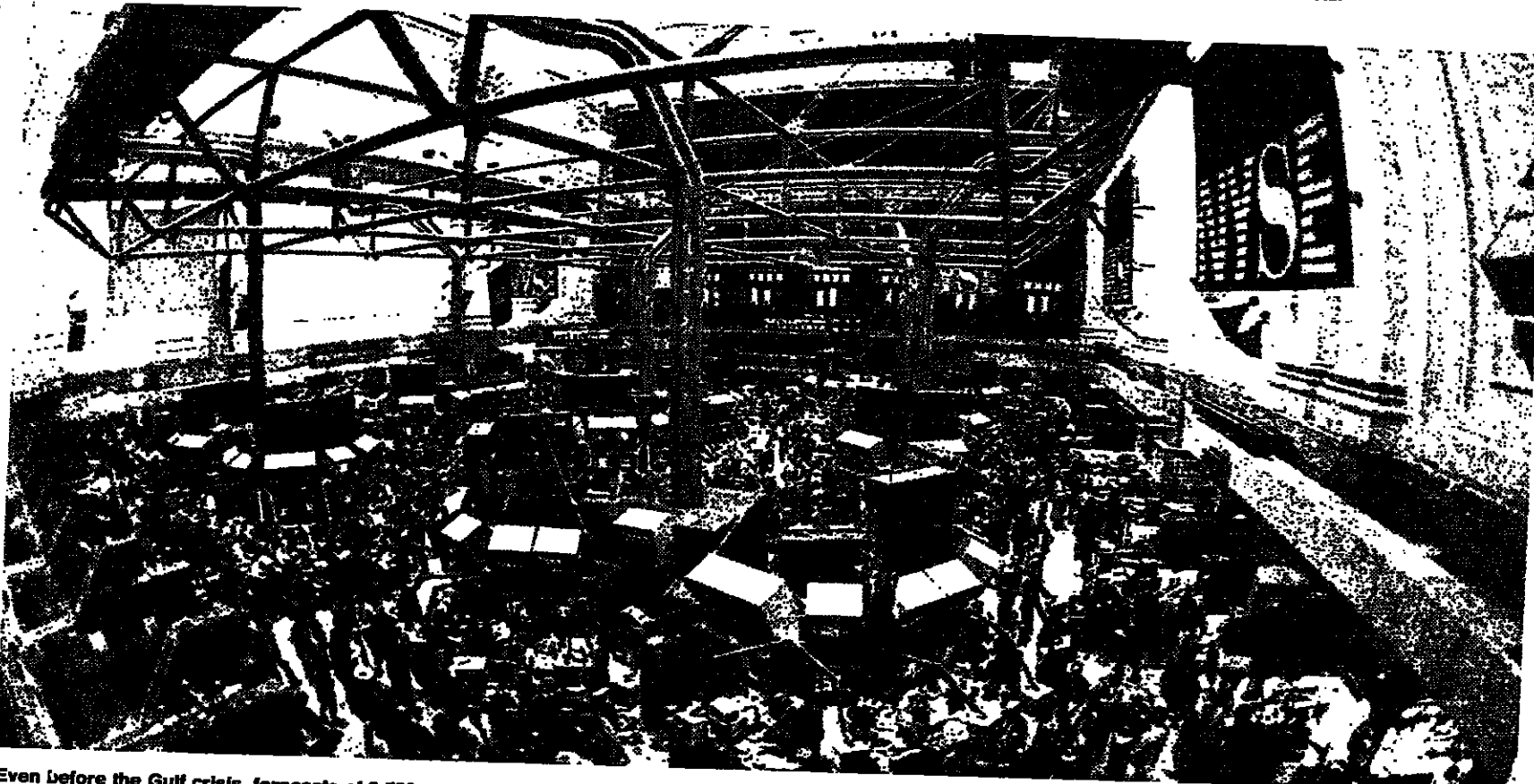
As even traditionally safe investment vehicles begin to look risky, banks have become more cautious about to whom they lend. Inflation increases perceived risks at the longer end of the market and qualification criteria for business loans are stiffening. The reluctance to lend is likely to make it harder to reinvigorate the economy even if monetary pol-

icy is eased, a point argued by Federal Reserve chairman Mr Alan Greenspan in July and again earlier this month. Against that, if real interest rates stay high, then weaker G7 economies such as the US and the UK will continue towards recession. Either way, business will find it hard and expensive to borrow.

For some markets, however, Britain is in a peculiar position. They see the Exchange Rate Mechanism of the European Monetary System as a haven of relative certainty. The rise in the price of oil could also help trade and budget balances and, through its underpinning of sterling, inflation too.

But while sterling surprises even the bulls of the currency, the equity market remains unconvinced. Analysts who argued that the weight of institutional money would push shares higher are still waiting to be proved right. In the absence of profitable business, some of the weaker equity market players, such as Citicorp Scrimgeour Vickers and Kitcat & Aitken, owned by Royal Bank of Canada, withdrew from the stock market this year. More will follow.

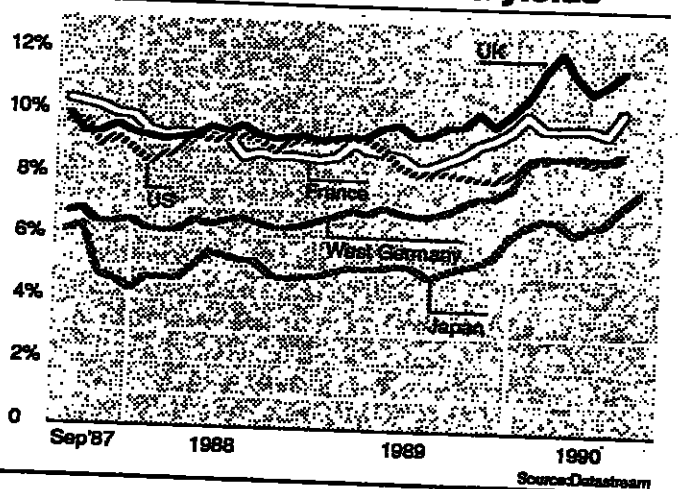
There is some thought of an end of year rally as institutions adjust their cash weightings before the start of the new year. City analysts are still forecasting 2,500 on the FT SE-100 index. On the other hand, the inclination in most financial centres in as the year has passed has been to hatten down the hatches. There may be technical recoveries before Christmas and more fundamentally based ones next year. But it is hard to find investors prepared to gamble heavily on either.



Even before the Gulf crisis, forecasts of 3,500 on the Dow Jones had already begun to look increasingly unlikely

Glyn Gwyn

Long term government bond yields



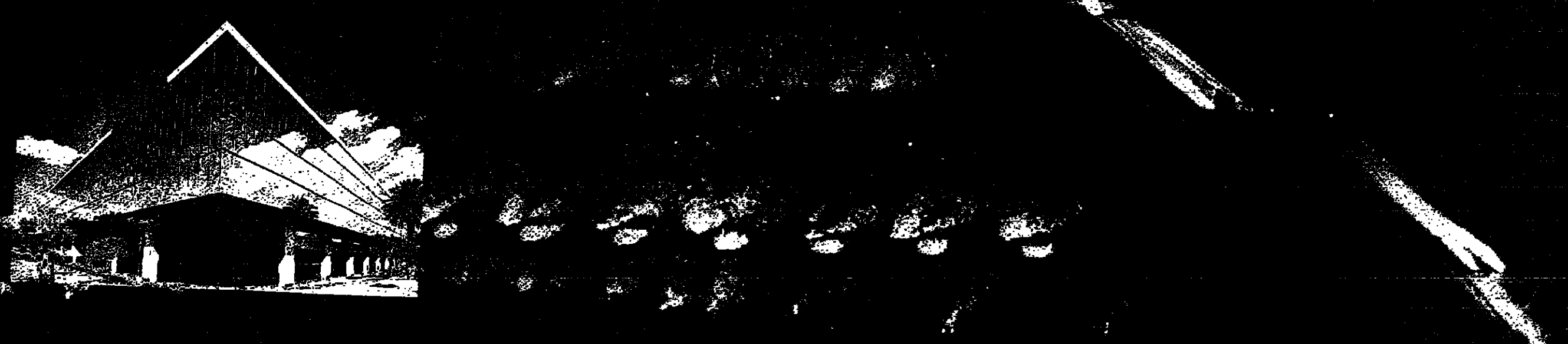
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